THE PEOPLE'S CREDIT

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THE
PEOPLE'S CREDIT

RENDER UNTO CÆSAR THE
THINGS THAT ARE CÆSAR'S"

THE PEOPLE'S CREDIT

BY

OSWALD STOLL

"We must all be ready—I speak without any dis-distinction of opinion—in the common cause to give and take, to take and give. Do not let it be said by our children, and our children's children, that at the greatest moment in our history our arm was shorn of its strength by any failure on the part either of rulers or ruled. . . ."

RT. HON. H. H. ASQUITH, *House of Commons, September* 15, 1915

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INTRODUCTORY NOTE

THE purpose of this work is to promote the extension of a Credit System which, although rendered indispensable by the magnitude of our commercial operations, nevertheless, whilst confined within its present limits, bears hardly upon the vast majority of those upon whom it ultimately depends, those whose activities constitute in the main the national and Imperial life, and the extension of whose activities would accelerate the development and enhance the prosperity of the British Empire as a whole, throughout all grades of our Imperial People. Some who are seated in high places in the sphere of economic thought, should they deign to take notice of the doctrine here expounded, may dismiss it with the stigma that the economic argument upon which it is based is entirely fallacious. But it must not be forgotten that there are economics *and* economics. And the time seems to have

arrived for a national and Imperial stock-taking in economic practices, and for considering whether we have not too many broad principles interpreted by narrow minds, and too few narrow principles interpreted by broad minds.

Economic principles may be too wide for the promotion of the welfare of the British national and Imperial unit merely as such. That is the point of view from which I have written. Specious contrary arguments may very easily be advanced from other points of view. But the reader in his consideration of these may be reminded of the game of the pea and the thimbles. The important question for the novice confronted by the expert is always which thimble the pea is under. The pea the reader may regard as the economic question. The various thimbles may be any one of the following:

(1) Economics as Economics, treating generally of land, labour and capital in their relation to human wants, the wants of *all mankind*.

(2) Economics as Industry, wherein land, labour and capital become parts of systems of processes by which family, nation or Empire is furnished with economic goods.

(3) Economics as Business, wherein the factors of numbers 1 and 2 are used for the purpose of producing revenue or profits in either money or terms of money.

The comparatively free and rapid evolution of the Empire into a gigantic economic organism, self-developing and self-supporting in all respects in both peace and war, which my doctrine has for its natural objective, should further limit the bounds allowed for its academic discussion.

As a matter of business which concerns the daily affairs of every member of the British Empire, whether in these Isles or elsewhere, there is no graver economic fallacy than to suppose it to be in the interests of the nation or the Empire at large to fetter those who have vital stakes in the country or the Imperial area by making those very stakes so much unavailable capital except by favour of a financial community as represented by financiers, bankers, and mortgagees who advance stake-owners credit, not cash, upon high interest and onerous terms, and have the right to call for repayment in cash or credit at a time when the lenders are in control of the credit and not a tithe of the necessary cash exists. In

the great unsought crisis of self-preservation that has now befallen us in which the good fight is being fought as best it may, the muscles of the Empire cannot fully or freely develop whilst that economic fallacy hampers their movements.

O. S.

CHAPTER I

WAR AND FINANCE

THE financial disturbance caused by the outbreak of the great war is not fully described here. Enough, however, is said to indicate that our financial system, as a thing apart from the Government and what the Government stands for, momentarily collapsed; and that it was the exercise of powers by the Government, not the financial system itself, which gave what Hartley Withers calls "a wonderful proof of the enormous strength of England's monetary power." *

The August Bank Holiday of 1914 will be a memorable one in the annals of British banking. The long queue of note-holders whom the preceding Saturday had seen assembled for the purpose of requiring the Bank of England to fulfil its promise to pay on demand golden sovereigns for its crisp paper notes was no longer visible. The tellers of the Bank

* "War and Lombard Street."

had carefully counted out the coins and passed them over to the anxious recipients until closing time. Then the memorable Bank Holiday, and the Government intervened and stifled at its inception what might have been the greatest financial panic in history. The banks throughout the country, without exception, were kept closed by the Government for three days instead of one. During those days millions of Treasury Notes were printed, in denominations of £1 and 10*s.*; a law was made investing these notes with the authority of legal tender, and when the banks reopened their coffers were full of the notes in the place where the gold should have been. These notes had been printed against gold which was in the pockets of the people, not against a reserve of gold held by the Bank of England. When later the people's gold was paid into one or other of the banks, it was retained. Its depositors, on wishing to withdraw some of it, were given not gold but Treasury Notes. As the Treasury Notes went into circulation so the gold went to the Bank of England. Thus, good English sovereigns gradually took the place in the Bank of England of the pieces of printed paper called Treasury Notes, which

the Bank at the behest of the Treasury had issued. In effect, the Government had to take gold from the people for more reasons than to meet a collapse of credit, and that is how it did it. It was as if the Government had said to the people, "Hand over your gold and take this paper." The public accepted the position with equanimity and did not mind even when the Treasury Notes became so plentiful as to have nothing behind them but the Government's word. It took that to be as good as gold. Every one will understand that it was necessary to maintain the credit of our banks in any way whatever, provided that the Government was responsible and the method effectual. The point one would like borne in mind is that the credit of the banks was maintained in reality not with what was in the hands of the banks but with gold which was in the pockets of the people, and with the word of the people's representatives.

That the credit of the banks had to be maintained in the national interest none could deny. That the banks of the United Kingdom shall be enabled to meet their obligations by means however extraordinary is a cardinal

principle upon which the good name of the nation depends. And not alone its good name, but its means of subsistence.

It is as important to the nation as to the banks that the credit of the latter shall be upheld. Yet we sometimes allow a bank to fail, and for the same reason that brought all the banks at this crisis to the brink of failure—no deeper reason than that the banks were called upon to meet their engagements, and could not do it because securities had depreciated and were unrealizable, whilst the bulk of the money into which they were supposed to be convertible was not only unobtainable but did not exist.

Following quickly on the closure of the banks came the closure of the Stock Exchange, the market where these securities in normal times are bought and sold. In no previous crisis had the Stock Exchange been so vital a factor in the financial situation. Never before in such troublous times had the securities listed there represented so many millions of pounds. Had the collapse in prices of these securities been allowed to take its course, under the pressure of forced sales, every individual, group and institution dependent

for solvency upon the maintenance of their fair exchange value, including all the banks in the country, would have fallen, bringing down with them vast interests of every conceivable kind.

The magnitude and appalling character of the influence on the welfare of the whole nation exercised by the Stock Exchange in such circumstances is entirely due to the fact that the securities dealt in on its floors represent in paper form the bulk of the business of the nation. Hence is a collapse in the one reflected in the other.

To round up these heroic efforts to avert absolute chaos in the business world other steps were necessary. A moratorium was declared with the effect of holding business obligations in a state of suspended animation. The Bank of England had given the first alarm by raising the rate at which it would discount bills to 10 per cent., its governors being apparently under the impression that 10 per cent. would not be readily sacrificed for 90 per cent. of gold in place of paper by the makers of the world-war. It was now able to revert to a rate of 5 per cent., and under the direction of the Government gladly discounted and

rediscounted bills to the tune of more than a hundred million pounds at that rate. It gave not gold but its own good paper in exchange for what had become bad paper. Behind its good paper stood the British nation; behind the bad paper stood people who would not or could not pay. The stability of some, nay all, of the great financial houses trembled through those anxious hours. Some of the greatest minds in high finance thanked Providence for a Chancellor who could dare to shift their heavy burden on to the shoulders of the whole people. But perhaps the Chancellor, with his flashes of Celtic genius, knew instinctively that the burden was already there, borne unconsciously by the people always, and its weight attributed to other causes. In times of crisis the national credit is ever found to be the burden of the nation. In normal times its uses and its profits are the perquisites of the few. It was the select of these few who as financial experts were called into counsel by the Government. Amongst them acceptors of bills who, in common with acceptors generally, could not meet their obligations, advised that the Bank of England should do so in their stead. Bankers from whom the

return of deposits payable on short notice and on demand was being demanded and who could neither pay what they owed nor obtain what was owing to them advised partial suspension of payments and partial token payments in the form of Treasury Notes provided by the Government. All the experts advised according to their needs just such measures as would save them from ruin, and advised in the general interest. High honours were conferred upon the most distinguished of their class as an expression of the nation's gratitude. It is true that they acted in the general interest, but it is peculiar how completely the general interest coincided with their own. The financial interests in their control, constituting their trading staple, were merely the counters of the general interest which our financial system allows them to monopolize and regulate, expand and contract, raise and depress from time to time according to their own desires; an inversion of the order of things that would prevail if the real bearers of the burden the system entails had the use of their own economic rights. These desires of the magnates of finance are not necessarily arbitrary and selfish. As

the intricacies of the economics of business are wide as the world and deep as the sea, such desires may rise like little crests on the waves of a more or less troubled sea of affairs in every variety of shape, size and situation, and in conditions either inherent in or quite outside their source. But however these desires are produced, their collective effect is to form the character of industry and assign to it place, extent and personnel. There is hardly a business concern throughout the realm which does not as a consequence pay tribute to this financial community. It appals one to think how much of the work of the nation—of master and man alike—is absorbed in the payment of this interest alone. In money-measure it is hundreds of millions of pounds sterling. Yet the money-tax is negligible compared with the conditions the system creates. In misdirected vitality and lost opportunities the effects are incalculable. The best years of the lives of countless employers and employees are spent under the deadening financial drain and regulation, until experience, knowledge, and enterprise lapse into senility. Besides the Poverty ear-marked by Henry George which marches shoulder to shoulder

with Progress—the poverty of the poor—there is a poverty of the rich, the rich in intellect, health and real property rendered poor by the fixity and uselessness of their riches in the form and circumstances in which they hold them.

There are owners of broad acres whose lives are a constant struggle to make ends meet. There are university men whose attainments have no value in the positions low down in the social scale into which circumstances drive them and whose whole time is occupied in their struggle to earn a bare living. There are men of affairs whose progress is arrested through all their years of vigorous manhood by the conditions of the only method upon which they can finance the business upon which their knowledge and capacity entitle them to embark, conditions that in effect condemn them to the state of mere wage-earners, notwithstanding their responsibilities as principals. Henry George saw some of the truth but little of the remedy when he wrote: "The present century has been marked by a prodigious increase in wealth-producing power. The utilization of steam and electricity, the introduction of improved processes and labour-saving machi-

nery, the greater subdivision and grander scale of production, the wonderful facilitation of exchanges have multiplied enormously the effectiveness of labour." *

If the causes cited have multiplied enormously the effectiveness of labour, they have also multiplied enormously the power of finance. The effectiveness of labour, skilled or otherwise, the labour of brains or of brawn, is dependent upon opportunities, whether in new countries or in old, whilst opportunities are almost wholly dependent upon command of money or money-substitutes. The financial community has control, however, not only of both, but for all practical purposes of the basis upon which nine-tenths of the money-substitutes securely rest. They have little legitimate claim upon this basis, but they derive control of it from the modern financial system which has grown up to meet the requirements of business, and has been accepted without any question of its true character and influences by Government after Government. This system is one phase of "The wonderful facilitation of exchanges," which is a fact and a principle to be welcomed with open arms

* "Progress and Poverty."

by civilized mankind, and is synonymous with the satisfaction of human needs in every land. To place this under the heel of a financial monopoly is a grievous wrong. To allow it to remain so under implied pretences, demonstrably false, would add national insult to national injury.

CHAPTER II

EXCHANGE

Our financial system and the facilitation of exchanges have developed together. The function of exchanging is the life of trade, and the financial system is the organism through which the function is performed.

Commodities, services, and ownership of them together with ownership of the means and opportunities for effecting exchanges are the main factors in the great world of trade and commerce.

Mankind must be sheltered, clothed and fed and by their own efforts. Houses of no kind build themselves, although primitive man sometimes in his wanderings found caverns already made. Clothes will not make themselves, although the skins of animal carcases found their way in prehistoric times, as they do in present fashionable society, to human frames. Nourishing food does not travel unaided to hungry lips, although in some sunny lands

it may be easily gathered. Besides these necessaries of life, mankind have many desires to be gratified, wants to be supplied. The refinements of civilization, the coarseness of barbarism, the pomps and vanities and vagaries of fashion, the freaks of eccentricity and the ministerings to human frailty make objectives of daily effort as countless as the stars in the heavens. None of these things supply themselves. They all require and respond to properly directed effort. As a whole the efforts expended in their acquisition comprise the sum of work or business. An individual in an advanced country like our own requires so many things that no one man can supply himself with all he needs and desires. He cannot make his own clothes, plough his own lonely furrow, rear and kill cattle, catch fish, build his own house, cook his own food, and perform the numerous other operations of modern daily life. Were all this incumbent upon him, he would find life impossible. What mankind do in these awkward circumstances is this: they gradually find themselves organized by sheer force of circumstances into groups or communities of mutual helpers. One man who is clever at making fishing tackle makes a

lot of it and gives it away to anyone who will give him something that he wants in exchange for it. He must live amongst other people who possess what he needs and who need fishing tackle; or he must find a way of reaching them. He may give some of his stock-in-trade as wages to a man who will carry his surplus stock to those people who want it, where the carrier may then dispose of both this surplus, and his own share, in return for the commodities most needed by his employer and himself. The tackle-maker parts with the ownership of a portion of his tackle to the carrier in exchange for the carrier's time and services expended in the marketing of his goods. One day the carrier says that he had not enough fishing tackle to supply all the folks who wanted it because of all that was on offer his was the best in quality, the rest being too fragile and unreliable. The carrier suggests that if he could take more to the market, he could obtain for it much more of everything that was required to supply the wants of the maker and his growing family. The wife, on hearing this, offers to help and to teach the children to help in the making of the tackle, and the whole family between them,

with the homestead converted into a little factory, produce a much greater quantity, all of the right quality, and with one or two slight improvements which the carrier learns would make the tackle more attractive to certain people in the market who come there with beautiful shells that he would very much like to obtain. The carrier talks of the eagerness with which all the frequenters of the market accept these shells in exchange for the goods they bring. But the maker says shells are useless to him because they cannot be used as food, clothes and shelter for himself and his dependents, including those whom he has now to maintain for the gathering of the materials from which his fishing tackle is made. Still, he does not object to make the improvements in his work, in which he takes considerable pride. The carrier who is now familiar with the market knows that the maker is wrong in his views about the shells which, he has observed, may, although in a peculiar indirect way that must be seen to be believed, provide not only food, clothes and shelter, but every kind of these and many other desirable things. One day he exchanges all his fishing tackle for shells and then gives

some of these for the various kinds of goods that he is expected to take back. He obtains a more pleasing variety of these, more flour, less sugar, the right quantity and kind of fruit, and so forth, neither too much nor too little of anything. Hitherto he had been obliged to give a full set of fishing tackle in exchange for every different kind of commodity desired, obtaining less flour for one than he needed, and for another, more fruit. He had been unable to get both fruit and flour for one set of tackle, because the man who had the fruit had no flour, and the man who had the flour had no fruit, whilst part of a set of tackle was of use to neither. But the shells, being small and separate, he can give a certain number for a definite quantity of each kind of commodity, and he finds that after providing himself with all his needs in variety and amounts that give him great satisfaction, he still has quite a number of shells in his possession. When this has occurred a number of times he finds himself with enough shells to purchase a caravan. Into this he collects for the market not only fishing tackle, but other commodities for which he brings on his return journey the goods required in exchange.

He ceases to accept any share of the maker's fishing tackle as wages, and thereby not only ceases to be his servant, but becomes his friend and ultimately his creditor, when, desiring still more fishing tackle made with peculiar machines which the maker cannot obtain, the carrier lends them to him. The carrier obtains further caravans, and even ships to cross the seas, taking certain commodities to more distant places and bringing other commodities back. The poor carrier who himself began work with no skill in making anything gradually makes himself rich indeed, so rich that he is looked upon with great respect not unmixed with awe. He knows so well how to take care of his valuable shells and is occasionally so kind in lending some for a consideration called "interest" to those in temporary need of a few, that when he announces that he is giving up carrying and exchanging or trading and is retiring from business but is willing to take charge of the shells of other people, as well as of his own, in a safe depository, where there is no risk of their being stolen, everybody with shells brings them to him at his place of safety which he calls his bank. Here he learns by

experience that but few of his depositors require the use of either all or some of their shells at the same time, and that it is people who have no claims upon him for shells who seem to have the greatest desire to use them. So when all his own shells are lent out at interest in the way which helped to earn for him the gratitude of his neighbours, he continues the good work by lending the deposited shells also and in that way makes handsome profits out of resources not his own. In doing so he commits no breach of trust; at least, not intentionally, because he considers the deposits still quite safe and safety alone is guaranteed. This, in making a loan, he takes great care to ensure. He requires the borrower to deposit securities in the shape of claims to actual property more or less readily exchangeable for even more shells than the borrower receives from him. These claims he exercises if the borrower fail to repay the borrowed shells at the due date, and he then exchanges the property for shells with some new party to the transaction, using the shells obtained to replace those which the borrower failed to return. Until it becomes unlawful to appropriate an excess of shells obtained thiswise

over the number originally lent, the unscrupulous type of banker is very often glad of a borrower's inability to repay in the regular way. But the interfering law-maker always steps in sooner or later and prevents such excessive profits from being obtained out of the use for lending purposes by a banker of either his own shells or those which belong to his depositors.

Now, the banker ultimately discovers written claims to property to be so useful that he conceives the idea of using claims to shells. He gradually induces the people around him to use written claims to shells instead of actual shells. When shells are deposited at his bank a book of blank forms of claims, called a cheque-book, is issued to the depositor, who uses these forms to make claims for the repayment of his shells either to himself or to any other person whom he may wish to receive all or part of them. Both the banker and the depositor soon find that these claims to shells are accepted in exchange for commodities and other property as readily as actual shells; that they are certainly much less trouble to carry about; and that they involve no time or effort in journeying to and from the bank,

first to withdraw shells and then to redeposit any balance of them after necessary market exchanges have been duly executed.

The banker next discovers that he may lend claims to shells on the same advantageous terms as those on which he lends the real things. And so general does the use of the claims upon shells, instead of real shells, become, that the claims not only serve as substitutes for the shells, but eventually supersede them. The giddiest height to which the most ambitious banker, or shall he be called financier, may attain is to the lending out at interest of vast numbers of written claims to shells that belong neither to him, nor to his depositors, nor to anyone on earth, seeing that they have no existence in fact. All that exists as the financier's asset is a belief that they do exist. But quite apart from the financier something other than the written claim, something that the financier has no claim upon, an equivalent of substance, does exist. Exactly what this is nobody ever finds out, because, whenever the claims are about to be exercised in a universal demand for the non-existent shells, the law-maker steps in and stops it. Acting as the representative of the owners of that

something, the descendants of the makers of fishing tackle, the skilled producers and accumulators of real property (not paper), the operation of which is the means whereby the whole community lives, he commands nothing less than a written claim on all this property to be issued against the claims for non-existent shells. It is as if the original carrier, not skilful enough to make the original fishing tackle, fitted only to carry the results of skill to market, contracted personal debts in his own name without the wherewithal to pay, and upon his being pressed for payment, a law-maker stepped in and gave his creditor a claim on fishing tackle belonging to his master. Kentuckian justice truly.

CHAPTER III

THE MEDIUM OF EXCHANGE

The evolution of the carrier into the financier, like the evolution of society generally from the simple to the complex, fills more time than the life of one individual. Our carrier is therefore not one man but a succession of men each varying his usefulness to fit the changing stages of economic or business development. But his usefulness always consists of control of the medium of exchange. In the early exchanges, which are no more than simple barter of commodity for commodity, his legs, slangily termed shanks' pony, constitute the medium. No other medium of any kind is necessary. Corn is exchanged for fishing tackle on the two commodities being brought together. Nothing but this service, except the act of exchanging, effects the exchange. The carrier is a medium of exchange in the sense of being a means of transport. He is essential in that capacity. The vast network of railways cover-

ing all lands, the mercantile marine ploughing all seas, the whole organization of modern transport and transport-workers, are a development of this simple but useful function performed by him. But he is rather the instrument of exchange than the medium of it, viewed from this standpoint. Were the control over exchange which he eventually acquires as a financier achieved by his control over the instruments of transport in this sense, it would be legitimate enough. Transport develops into a necessary branch of production and transport workers into real producers. But princes of transport are not necessarily financial magnates, although financial magnates may be largely interested in their operations. The carrier, without financial insight, who develops along carrier lines, instead of along the lines of financing carrier business, sooner or later falls under the control of the carrier with financial insight who uses carrying merely as a ladder to be climbed and abandoned when the higher plane of pure or impure finance is reached with its lighter work and subtle power over workers.

However, a medium of exchange is not understood in the economic sense as a means

of transport. A medium of exchange, economically, is rather a measure of value, a sort of middle term by which everything capable of being exchanged may be compared, something for which everything else may be exchanged and which will exchange for everything else, something in terms of which all modern exchanges are effected. This something in the tale of our Excelsiorlike carrier apparently changes at different stages in his development. First it is nothing at all. Next it is shells. Then it is written claims upon shells or scraps of paper. Finally, it is claims upon shells which are believed to exist but do not. The difference between the first stage and the last is more apparent than real. In the former the medium is admittedly nothing. In the latter it is the same but not admittedly so. But it really is nothing because nothing is necessary. In direct exchange or barter a penknife may exchange for a necktie with an intermediate nothing. In the indirect or roundabout exchanges of modern business it may be desired to exchange apples for doormats. Where a common measure of value exists, the apples are sold in the apple market, payment is made by cheque drawn upon a bank

in favour of the seller for a sum of the measure of value equivalent to the value of the apples. With this cheque the holder may go to the market for doormats and purchase as many of these downtrodden articles as represent in measure-of-value the amount of it named on his cheque, which he may then sign over to this seller, writing on the back of it the seller's name and his own. This cheque is "paid" into the doormat-seller's bank and the figures upon it are credited to his account in the bank's books as owing to him by the bank. Neither seller, whether of apples or doormats, sees any medium of exchange except a piece of paper with writing upon it, and even this neither need see more than once. The bank itself does not see any valuable medium either beyond mention of one in its books, so much are pounds, shillings and pence merely the yards, feet and inches or the pounds and ounces, in which transactions are calculated, rather than an actual part of them. Before the cheque system became established, when a written claim upon what might be non-existent was not acceptable in exchange for good goods, a real medium of exchange had to be trotted out. This at one time and in

some places was the shells of our carrier. In other times and other places, heads of cattle, pretty beads, pieces of ivory, gold, silver and precious stones. These commodities were not only spoken of quantitatively as a measure of value but had to be used in concrete form as the actual medium of exchange. If a field were valued at so many head of cattle, and the owner of the field desired to exchange it for gold ornaments, he would first exchange his field, not for a written claim upon a cattle-bank, but for cattle themselves, which he forthwith would exchange for gold ornaments. Therefore, when the medium of exchange consisted really of something actual and intrinsically valuable, it was not only talked about in, but formed part of, the transaction. It was a very cumbersome, troublesome part. The man who had parted with his field for cattle had parted with the only place in which he could conveniently keep cattle. And unless he found an owner of gold ornaments quickly, and one ready to exchange such ornaments for cattle, he became seriously embarrassed and not a little worried. He could never be happy in business unless he began such a transaction

at the end of it. A herd of cattle on one's hands, which one has no use for, which one cannot part with except to a particular kind of person who cannot be found, and for which one has neither place for keeping nor food for feeding them, is not a convenient medium of exchange. Necessity being the mother of invention, it is not to be wondered at that ingenuity was taxed to the uttermost and successfully in the simplification of media of exchange until a little piece of paper of no intrinsic worth, folded in the vest pocket, would serve for exchanges of any kind and amount. What an improvement on the difficulty of handling a herd of cattle which certainly could not be folded up and carried in the vest pocket! And although for love of gold many would delight in, they would soon tire of, constantly steering cartloads of gold through large daily transactions. Our modern medium of exchange is ostensibly gold, silver, and copper, and legal-tender paper based upon these and exchangeable into them in certain proportions at any time. Gold alone is the standard by which we measure exchange-value. It is a standard that is wrongly supposed not to

fluctuate in its own exchange-value. But that is by the way. Now, although our ostensible medium of exchange consists of these factors under the general name of Money, the real medium, except for small hand to hand transactions, consists of written documents drawn up in terms of money, called money substitutes, credit instruments, cheques, bills, drafts, bank and Treasury Notes. As much as possible of the reputed medium of exchange, in the form of gold, is kept out of circulation and stored away in the cellars of the Bank of England. If it were really the medium of exchange, therefore, this action on the part of the Bank of England in taking it out of circulation would limit in both magnitude and number the exchanges the people might otherwise effect. But the Bank of England being friendly to the country, having observed that gold is really not necessary and becomes even troublesome as a medium of exchange, has merely rung the changes and issued credit instruments of paper consisting of claims upon the gold, instead of the gold itself. The gold is called a reserve against the outstanding claims upon it. Other banks do likewise, putting the major portion of their gold, however, into the

cellars of the Bank of England instead of into their own. The place of metal money by the thousand is thereby taken in the national and international exchanges by paper money by the million bearing interest or commission at a more or less microscopic rate payable to the wizards who have wonder-worked these millions into being, millions impossible of liquidation into the gold for which they are vainly believed to be exchangeable, millions which in reality consist of that belief itself transformed into the thing called credit. And this credit is a thing which the nation for its own sake, not for the sake of the wizards, cannot allow to collapse, and which is therefore national responsibility as well as the real medium of exchange. And what better medium of exchange could there be than scraps of valueless paper bearing a few written or printed words ? It has all the necessary characteristics. It may exist in large quantities, be in universal demand, and admit of division into any desired units. It may accommodate itself to every conceivable variety of conditions of exchanging. It may be uniform in quality and, owing to its ease of reproduction, it has the attribute of perpetuity. Finally, it may be portable

almost without limit, for it unites large representative value and small bulk in a way that cannot be equalled for convenience when carried about and used for exchanges in different places. The last named quality gives credit instruments as a medium of exchange a very great superiority over gold and silver. And for this reason as well as others, such as elasticity, credit instruments by the common consent of traders have usurped the position of gold and silver in the world's commercial exchanges.

Credit then, outside of comparatively small and personal transactions, is not only the real medium of exchange, but the latest and the best that enlightened civilization has devised. And this medium of exchange, supreme in utility and value, is the state-supported monopoly of a small section of the community—the financial section. Think of it!

The stages in the growth of this modern medium of exchange, stages corresponding with the development of modern civilization, may be briefly restated as a conclusion to this chapter. It must be understood that although the last stage embraces the overwhelming majority of the business transactions of the nation, all

the prior stages still persist in more or less extent, overlapping and interlacing one another as the prevailing circumstances direct.

(1) Goods are traded (*i.e.*) exchanged for goods.

This is the stage of barter, and the beginnings of distribution.

(2) Goods are traded or exchanged for services and goods.

This is the origin of transport, redistribution, and the primary stage in the division of labour. The master-worker begins to depend upon a carrier. Wages are paid in kind.

(3) Goods are traded for services and money ; and these services and money again are traded for goods.

This is the first appearance of a medium of exchange in the economic sense, with its equally important function of measuring value.

Money may take on various forms, *e.g.* cattle, beaver-skins, beads, shells, silver, gold, legal tender, etc. Wages are paid in money.

(4) Goods and services are traded for money ; money for credit (bank credit) ; credit instruments (notes, cheques, legal tender) are traded for services and goods.

Here the carrier as well as the master-worker

has become subordinate to the financier as controller of the economic medium of exchange. Wages are paid in both money and credit. The financial writings of a Walter Bagehot, delightful as literature, go no further than this stage of the problem, where gold is both the standard of value and the basis of credit.

So little did Walter Bagehot realize the coming magnitude of the credit system or its real basis that he writes in "Lombard Street," page 36:

"In consequence all our credit system depends on the Bank of England for its security. On the wisdom of the directors of that one joint-stock company it depends whether *England shall be solvent or insolvent*." But the truth has been exposed with a stroke of the sword that whether England shall be solvent or insolvent depends on the will of its people, voiced by its Government and backed by the people's property, over which the Bank of England has but small control. And not alone does the solvency of England not depend upon the Bank of England, but the solvency of the Bank itself depends neither upon its gold reserve nor its securities nor on both but on the

people also, for the solvency of the Bank is no more than a part of the solvency of the whole.

(5) Goods and services are traded for (*a*) credit instruments;
  (*a*) credit instruments are traded for (*b*) credit instruments;
  (*b*) credit instruments are traded for (*c*) credit instruments; and so on until (*d*) (*e*) (*f*) or (*g*) credit instruments are traded for services and goods.

By means of credit instruments credit as the supreme medium of trade or exchange is at this stage supplied. Moreover, into the terms of the measure of value used in credit instruments is translated *ad lib.* the practically inexhaustible credit of the nation, not alone for normal trading operations, but to the fullest extent required by financiers for any purpose whatever; so unerringly are opportunities seized, so true is it that "chance is a fine thing."

Hartley Withers writes:

"Too many finance bills of the wrong kind were out, and Lombard Street saw the fact so clearly that for some weeks it rang with the cry that there must never be any more finance bills of any kind at all. This exaggerated view is already discredited, and there

is good reason to hope that opinion will settle down to a sensible midway path, taking the finance bill as a quite legitimate and necessary convenience, dangerous only when abused and distorted." *

Beside credit, the development of the method of trading has made comparatively negligible all other media of exchange.

That the use of so powerful a weapon, so commanding an asset, should be restricted by law and custom, and, at every crisis, by Government ratification, to a very small section of our supposedly favoured nation, is really perplexing. Readjustment of its use is our problem.

* "War and Lombard Street," chap. v, p. 111.

CHAPTER IV

CREDIT

Credit is belief—belief that admitted claims to value represent value, are as good as value, are exchangeable for value or for what will procure value—belief that receipt of admitted claims to value is equivalent to value received—belief that claims to future payment based on the promise of a person of property or in possession of claims to property or reputed on some kind of evidence to possess property or claims to property, or endorsed by such person or persons, are certain to be met in a form of payment acceptable to the claimant—belief to the extent of parting with actual property in exchange for such a promise of future payment—belief in the ability and disposition of individuals, private firms, public and private companies, and Governments to fulfil financial obligations. Where no such belief exists there is no credit. Where such belief is unlimited, credit is unlimited. Where

a large amount of such belief is centred, there also is credit unlimited or practically so; for it may be traded in in limited amounts, in separate deals, to an almost unlimited extent, with the certainty that general redemption of the obligations incurred cannot be enforced, seeing that if it were demanded, the Government would intervene. In practice credit has never been classified as it should have been into individual, corporate, national, and Imperial. Credit has been indiscriminately moulded not on principle but by practice into instruments or evidences of debt adapted to facilitate transactions and bridge financial difficulties. The great question of credit itself must, therefore, be examined in the first instance by taking up one at a time the credit instruments by which it is obscured.

Credit Instruments

The business of a modern bank is "to deal in credits; it is a market for the purchase and sale of credits. It is an institution the function of which is to assist in the exchange of goods by facilitating the use of credit as a medium of exchange. It is with credit as with any saleable commodity—the existence

of a market where it may be bought and sold increases its use because a demand for it is always assured." *

Practically all credit apart from that of mere shopping on a small scale is handled by banks, and in so far as they are the machinery for handling it, rightly so.

Bank credit is dealt in upon a greater scale than any other, it is created at very little expense, is very convenient in form and yields a handsome profit from payments for the use of it.

The Deposit Receipt is a document issued by a bank promising to repay on demand or specified notice an amount of legal tender in exchange for value received by the bank. It may have received the value in the form of gold, or other cash or credit instruments, or all of these. The bank takes the value and issues the claim upon itself in exchange therefor. In this case it allows the depositor interest on the amount deposited. This is a price which it pays to him for the use of his money, as he understands, seeing that no sane

* "Money and Banking," vol. vii, p. 233 of *Modern Business*, issued by the Alexander Hamilton Institute, New York.

person could imagine that payment would be made with any other intention.

Deposits received, upon which no interest is paid, except by special arrangement, are treated as the purchase price of that amount of the bank's credit, payable on demand in a way prescribed by the bank. Thereafter the bank duly acknowledges up to the amount received what are called cheques or demand orders upon the bank to pay forthwith to a particular person, or to the order of that person, or to the bearer of the cheque, or to the drawer of the cheque, *i.e.* the depositor himself, the sums which the depositor orders the bank to pay. To such depositors a cheque-book containing blank forms of such orders, each one bearing the Government stamp, is given, usually for convenience and in the interests of method rather than from necessity. The same purpose can be served by a scrap of paper properly drawn. The withdrawal of these deposits is gradual in both time and amount, seeing that but few people are paying in and withdrawing the same amount at the same time. The bank has the use of more or less of these deposits for more or less time practically free of charge.

The credit instrument in the case of these deposits is the cheque or its substitute, used or not as the purchaser of its credit may desire; sometimes never used as the sum of unclaimed balances proves; unclaimed balances of purchase-price of its credit paid to the bank and therefore retained by the bank; a retention which on any other hypothesis would be wholly unjustifiable.

In respect of all these deposits, the bank sells as much of its credit or of the right to make written claims upon its credit as it receives in value. But this is not the full extent of the credit which it sells on the strength of these deposits. Experience teaches it that not more than 15 to 20 per cent. of its depositors ever at one time, except in a crisis, wish to re-exchange the claims upon the bank's credit for possession of the real value or purchase price again. The inconvenience, loss of time and futility of doing so combine to prevent it; 15 to 20 per cent. of real exchangeable value or standard value in exchangeable form, *i.e.* gold, is all that must necessarily be kept, and according to certain balance sheets all that is kept in hand in order to meet all the value obligations as distinct from credit

obligations which it is called upon to meet in the ordinary course of business. If this were not the case, banking would hardly be the profitable business which, once established, it undoubtedly is, and the King of the Counting-house would not be so powerful a monarch.

The amount of legal tender retained by a bank with which to meet its liabilities to those who have purchased its credit is called its reserve. In Great Britain ordinary banks maintain a reserve equal to 25 per cent. of the liabilities. Viewed in another way, this means that for every £100 of legal tender in its coffers the bank is prepared to lend, if it can do so on favourable terms and good security, £400 of its credit. Every £100 of cash, therefore, whether it costs the bank interest or not, enables it to lend £400 in bank credit at probably 5 per cent. £10,000 deposited at 2 per cent. costs the bank £200 and enables it to earn 5 per cent. on £40,000, or £2000. It is because a bank lends only its credit that every loan makes an equivalent deposit. When it lends an amount to a borrower it takes from him a credit instrument, promising to pay the amount when called upon by the bank, and this document is accepted

by the bank as the consideration for, or the purchase price of, the amount of credit named in the "bond." This amount of its credit it enters in its books as the credit of its borrower, treating him then as a depositor who has deposited that amount of bank credit to his own credit, and allowing him to draw cheques against the amount until it is exhausted.

The reserve of the Bank of England, unlike that of the other banks, is kept in gold, and it aims at a ratio of 40 per cent. rather than 25 per cent. It does this for the reason that most of that portion of the reserve of the other banks which consists of gold is included in the gold that constitutes its own reserve, seeing that the Bank of England acts as banker to the other banks. The Bank of England, therefore, in order to make its profits, earns interest on three-fifths of its deposits by lending its credit to that amount. Three-fifths of its deposits are therefore really loans. When the Bank of England, on the guarantee of the Government, announced in the memorable August of 1914 that it would discount all approved bills accepted before August 4, it really lent its credit upon the security of the bills, and hence not only did the loans

increase by a vast amount but the deposits increased correspondingly in the manner described. The 40 per cent. reserve ratio under these circumstances was, of course, no longer possible. It fell to 20 per cent. But the ratio was negligible compared with the word of the Government representing an acquiescent people.

These loan-deposits are not all operated by cheque. The bills just referred to are credit instruments of a highly important character. There are bills in great variety generalized as commercial paper. M. H. having sold goods to M. T. on three months' credit, goods for which M. H. owes C., who wishes earlier payment, M. H. draws a bill on a certain date requiring M. T. three months after the said date to pay to C., or his order, the sum involved, say £100, value received. The bill is accepted, or agreed to, or acknowledged by M. T., who signs it across its face to that effect, specifying a place of payment, most likely a bank, and it is forwarded to C., who proceeds to use it with the object of getting payment forthwith instead of three months later. He pays it into his own bank to be discounted. The bank thereupon treats

it as a deposit made by C. of the face value of the bill less three months interest at the prevailing or a special rate, accepting it as the purchase price of the bank's own credit to that amount and allowing him to draw upon it accordingly by cheque in the ordinary course of business. Many banks do not wait for these bills to come to them from a specific transaction through one of the parties directly concerned in it. If they have a large margin of credit available, which they deem themselves entitled to earn interest upon, they send out and buy such bills to the tune of millions, not, of course, with money but with claims to draw cheques upon them, which they allow to the owners by treating the bills they obtain as money deposited with them less the amount of their profit; or they lend their credit on recall, or on demand at short notice to dealers in such bills. These dealers or bill-brokers find a use for a bank's credit in this way for a small part of the bank's profit and diminish the bank's risk of acquiring worthless bills through the discrimination they derive from this special experience in the "money" market. Some of them, it is said, can "smell" bad bills, which they will not buy at any

price. Nowadays bills accepted by good names are bought and sold more readily than bills which have nothing but real value in the shape of commodities behind them. As a consequence, banks and financiers in the interests of trade and commerce deem it a duty to the State to use their names at a profit for the purpose of accepting bills.

There is an enormous demand for bills payable in London. A New York purchaser of goods from or through London wants a bill payable in London with which to discharge his debt, by mailing it to his creditor. His bank sells him one drawn upon and accepted by its London correspondent. Purchasers of goods from or through London in all parts of the world require the like convenience. *Their* banks do likewise, all having correspondents in London. So widespread has this practice become that bills payable in London are required in respect of goods that have never been near this country but which have been traded, say, between South America and China. The practice might keep on growing until without doing any trade of our own our country might act as the paying agency or clearing-house for the trade of the rest of

the world—just as the bankers' clearing-house adjusts business between bankers without doing any banking. But at present we do purchase goods from other countries, some people believe a great deal more than we should, at least in kind if not in quantity, and we require bills payable in the places those goods come from. We require to purchase bills payable in New York, Paris and other cities, and we find our banks quite willing to sell them to us. If we have a loan-deposit at our bank, we draw a cheque upon it with which to pay for the bill, which we duly dispatch to New York or Paris, or wherever we desire it payable, and its recipient pays it into his bank. Our bank sells us this bill payable in New York, because it happens to be the correspondent of the New York bank which has sold a bill in New York payable in London. It accepts our cheque upon its own credit in payment of our bill; it has paid the New York bill with its own credit in London; it sends nothing to the New York bank with which to meet our bill, it knows that the New York bank will meet our bill with credit just as New York's bill was met with credit here and as the New York bank sold the bill on London to a

customer in exchange for a cheque upon its own credit standing to his account. Out of the complexities of these transactions and the fluctuations in the demand and supply of bills has grown the practice of drawing bills to balance supply and demand for bills in order to regulate their prices, sometimes to provide working capital for banks themselves, and "sometimes they have been provided for mere gambling purposes and for financing big operations on the Stock Exchanges of the world." * But all bills based on gambles or anticipated trading transactions are not illegitimate. The enormous purchases effected by Great Britain in America and elsewhere for the war, rendering the excess of imports over exports so much above the normal, cause a demand in Great Britain for bills of exchange payable elsewhere, mainly in America, greatly in excess of the supply, and British credit must be pledged in the creation of bills payable there which are drawn upon and accepted by these American and other bankers and financiers. These bills tend to offset the enormous number of bills payable in London, which the foreign bankers have drawn, which London bankers and finan-

* Hartley Withers, "War and Lombard Street," p. 85.

ciers have accepted, and which are based on the shipments of goods from America and elsewhere, payment for which has already been made by the foreign bankers to the foreign shippers, through the discounting of the bills which the shippers drew upon the consignees of the goods. This discounting has been done with the credit of these foreign bankers who placed in their books as the credit of their customer or discountee an amount of their own credit equivalent to the terms of money allowed for each bill discounted.

American bankers and financiers having thus paid for the shipped goods with their own credit, look to the consignees in Great Britain for recoupment. In the ordinary course of trade British shippers would have been sending corresponding shipments of goods to America, creating consignees there against whom the shippers would draw bills and sell them to bankers and financiers in Great Britain, who would then be in a position to sell bills payable in America to offset the bills sold in America payable in Great Britain. But the requisite amount of goods are not being sold to America, and the consignees are not being created there, so that there is no legitimate

indebtedness being created in America whereby indebtedness in Great Britain may be offset. But the bankers and financiers in America by mutual arrangement decide to act as if there were any number of consignees there indebted to Great Britain; they allow themselves to stand for these supposed debtors, and to have drawn upon them bills of exchange payable in America, which they duly accept and which are thus made available in London to offset the American bills payable there. They have in reality, therefore, supplied Great Britain with goods paid for with their own credit, and also paid with their credit in advance for goods or other value that Great Britain will send to America in the future. Such a position is a great tribute to the value of British credit in the eyes of American financiers, it is a proof of abounding goodwill towards this country, it is a reason why America should not in British interests let loose its own dogs of war, it is a reason why Germany is tempted to bait America into becoming a belligerent, even against herself, and it is a reason why certain American financiers should in German opinion be shot. How vital is it, therefore, that Great Britain through her own resources and those

of her Colonies should become self-supplying lest America should become unavoidably engaged in the strife or " fed up " with responsibilities based on British credit!

Mr. Lloyd George deserves much of the nation, apart from any other claim upon it, for his speeding-up of our supply of munitions. But the word "munitions" may even now be used in too limited a sense—whilst the necessity of speeding-up Imperial independence in supplies of all kinds is receiving too little attention. The American banker utilizes his credit in America for the production of goods for us. He does it through the skill of the employers and the workers in particular manufacturing, marketing and transport trades. The British nation may utilize its credit by sharing it out imperially amongst its workers throughout the Empire, and so speed-up self-supplies to the high-water mark of abundance.

If war on the great scale is prolonged, it will have to do so. The alternative is national and Imperial death. But why await the application of a great and true principle until, perhaps too late, circumstances force our hand. This readjustment of the use of credit is our problem, of which a solution is offered further on.

Reverting to the acceptances by American bankers and financiers of bills drawn upon them by British bankers and financiers, and which are again and again renewed, by substituted bills as the originals expire, pending relief in a tangible manner of the obligations so incurred in our interests, these acceptances are in effect acceptances in a temporary form of British credit based upon the belief or expectation that Great Britain will supply relief in either goods and services, or British credit in a more permanent form with which to redeem them. It may take the form of securities, perhaps war-loan scrip, sent to these accepting bankers and financiers to be sold in America, and the bank-credit proceeds so obtained applied to offset the bank-credit with which the accepted bills were ultimately met.*

In effect such countervailing bills were drawn and accepted against, not a real but an anticipated indebtedness for securities which were going to be offered and purchased in America. But we cannot intelligently expect to base our safety for any long period on a policy of borrowing from America the where-

* Since the foregoing was written it has done so to an inadequate extent.

withal to pay America for goods supplied to us by America. Our Imperial area is a more secure foundation and fully capable of furnishing all our supplies if we remove the credit monopoly which constitutes an artificial check on home and colonial development.

If the war should last so long that too much British credit for other countries to accept has to be offered, it will go hard with us if we are not able to supply ourselves from the resources of the Empire itself with everything we need. Never again should our vital industries be allowed to fall below the scope of all possible requirements; and as the whole nation is dependent on these industries, so there are other industries upon which part of the nation is ever dependent, and which for that reason alone should be maintained without reference to any other consideration. A recruiting tour of the world to get back some of our skilled emigrants would bring to light some past mistakes, grave mistakes, in our economic life.

The bill of exchange acts its part nobly in a national crisis, whilst the cheque, the bank note, the bank draft, the Treasury bill, the Treasury note, and the promissory note

payable on demand, all have their parts in the grim and strenuous play. The difference between a promissory note and a bill of exchange is mainly that of usance. A bill is drawn usually at three or six months' sight, the intention being that it shall be met, not forthwith but in either three or six months (with three days grace) after the date it bears. The three or six months period is its usance. Shakespeare uses this word in a different sense, not of time but of interest, a secondary sense still extant. He makes Shylock in "The Merchant of Venice" say of Antonio:

I hate him for he is a Christian ;
But more for that in low simplicity
He lends out money gratis and brings down
The rate of usance with us here in Venice.
Act i, Scene 3.

Apart from its illustration of an older sense of the word usance, this quotation has a bearing on our problem, which will be dealt with later (*see* p. 66).

Letters of credit are instruments which figure largely in the operations of many banks, and are means by which banks sell their credit in various parts of any or all countries.

The Post Office sells credit in the form of post office orders, telegrams, and postal orders. These are issued for legal tender only, *i.e.* Bank of England, Ireland or Scotland (credit) notes, the new Treasury notes, or current coin of the realm.

As an illustration of the nature of credit the case of the postal order is instructive. This is a credit instrument for which legal tender may be claimed at any time at any post office during business hours. Suppose, after purchasing a postal order for £1, the purchaser finds he does not require it and goes back later to resell it to the issuing clerk and recover his money. If the clerk should have done nothing in the interim but buy back postal orders issued elsewhere, in other words, "cash" them, it is quite possible he may have no £1 left with which to buy back or cash the order which he sold earlier in the day and received the money for. And although the postal order is a definite promise on the part of the post office to pay £1 on demand, it may not be in a position to do so. It can give another promise of a like kind in exchange for this one, or postage stamps to the same amount, but that is all. This demonstrates that

the sale of a credit instrument, even of demand credit, is the sale of something outside legal tender, of something that involves postponed payment though it may be exchangeable for some utility even in an emergency, and for legal tender with a little delay. The promise to pay that is sold is purchased because of a belief in that promise—belief in the word, the power and the will of the maker of the promise to pay somehow, some day, somewhere, though for the moment there may not be "a shot in his locker." The intention may be to buy real value, but what is bought is not real value except in so far as credit that possesses exchangeable value is real value. Most of these credit instruments issued by the Post Office have real value behind them in the form of legal tender, though much of this is paper rather than gold and silver. But that credit is something apart from these and distinct from commodities is shown in its aspect as a medium of exchange. "Suppose that A sells £100 worth of goods to B at six months credit, and takes a bill at six months for it, and that B, within a month after, sells the same goods at a like credit to C, taking a like bill; and again, that C, after another month, sells them

to D, taking a like bill, and so on. There may then at the end of six months be six bills of £100 each existing at the same time; and every one of these may possibly have been discounted. Of all these bills then only one represents any actual property." *

Six hundred pounds worth of credit instruments cannot have been made into real value by £100 worth of goods which are not in the hands of a holder of any of the bills, but are being consumed, if not being passed on in a further transaction. These bills, if renewed again and again, may go on representing £600 worth of exchangeable value without having any real value behind them, and long after the goods that originated them have vanished for ever. If continuing to be so used, a crisis occurs and renewal is declined, it becomes necessary to meet them with £600 worth of legal tender; it cannot be done, but the Government will step in and order them to be rediscounted by the Bank of England upon its guarantee, *i.e.* the guarantee of the nation as a whole. All the time the credit instruments have represented nothing tangible pos-

* *Modern Business*, vol. iii, pp. 250–1. Alexander Hamilton Institute.

sessed by their users, but contingently the guarantee of the nation as a whole. But they have facilitated many necessary and useful exchanges in getting goods transferred from one person to another.

The three comedians on the variety stage, who are debtors of one another to the extent of £2 each, liquidate the debts by passing £1 round twice until it reaches the original owner a second time. A paper sovereign would serve the same purpose. Yet several business transactions take place. A pays B £2, B pays C £2, and C pays A £2. This process is the reverse of that of the previous example. Instead of leaving £6 worth of bills of exchange in circulation to promote further exchanges, which they could have done by operating from the credit side of the transactions, B drawing a bill on A, C drawing on B, and A drawing on C, and getting the bills renewed from time to time, they operate from the debtor side and stifle means to further business by withdrawing even the £1 from circulation.

A credit system is absolutely necessary to great expansion of trade. That is why the credit system has been developed.

The credit said to be given by the retailer

to his customer is really not the credit of the retailer. It is the credit of the customer for which the retailer has given or exchanged his goods. He has given his goods for the customer's implied or verbal promise to pay. This promise is seldom recorded in writing. He has exchanged his goods for a promise, in the good faith of which he believes. Some people have been known to resent indignantly any tendency of tradesmen to require cash down in every transaction, even refusing payment by cheque. This is regarded by the customer who vaguely sees credit in its true light as a reflection upon his or her credit, and it really is so, although a tradesman with visions of long-standing accounts and dishonoured cheques in his mind's eye may well be excused for his temerity. Among some traders in America there is a Credit Union which collects evidence of the credit of residents in various areas. It is supported by shopkeepers, to whom confidential information is given upon inquiry. In this way the credit of a customer is seldom wrongly impugned, whilst those whose credit is good get as full a use of it as they ever wish to make.

The more enlightened tradesmen are offering

discount for prompt payment by cheque, which has the same effect as if they drew a bill on the customer, obtained his acceptance of it, and discounted it at their bank. It is beginning to be understood that the man who always pays cash is in the long run by no means the best customer, for curiously enough he has little or no credit that either he or his tradesmen can draw upon. The reliable credit customer who need not restrict his consumption of purchases of goods to a portion, or even all, of the cash he has immediately in hand, thereby investing his purchases with irregular alternations, instead of almost unvarying regularity, is far more useful to his suppliers in the conduct of their business. He enables them to forecast their requirements in purchasing from the wholesaler. In satisfying all his needs, he enlarges the quantity of their sales and therefore of their purchases. Experience teaches them the quantity of credit which he uses both in time and amount, and corresponding credit arrangements are made by them with their wholesalers, who appreciate better the large order purchased on credit which is sure to be redeemed with exchangeable value, even after a protracted period, than the

small order for which cash is paid. This is soon discovered by retailers. The nearest approach to great success in business on a cash basis is a number of separate, comparatively small businesses run by one central organization which uses its own credit in its purchases on a large scale but sells only for cash. No large emporium doing a large business can become, or continue, large on a strictly cash basis whatever its pretensions to the contrary. And a large business has in all but exceptional circumstances a great advantage over a small one. As J. A. Hobson truly says: "The better facilities of credit employed as a rule by large firms must be accounted a separate economy. This economy is partly a productive advantage implying a greater facility of expansion in business operations, partly a competitive advantage implying greater freedom in processes of buying and selling, and greater power in tiding over difficulties." *

He might have said that common-sense business people with large enough credit have no difficulties of a financial character.

All the credit instruments utilized in the

* "The Evolution of Modern Capitalism," sub-sec. 3, p. 130.

foregoing transactions, and others which cannot be analysed for reasons of space, have reference to what is termed circulating credit as distinct from non-circulating credit. The instruments by which the latter form of credit is made specific and applied consist of mortgages, debenture bonds, debenture stock, and other such paper which are secured by, *i.e.* charged upon, property. This paper is not very readily saleable or exchangeable for instruments of circulating credit. But constituting the instruments of the credit of real property as it does, although classed as non-circulating credit, it is not itself non-circulating credit. The credit of the real property is certainly non-circulating, and that it should be so is the canker in our economic system which ought to be dragged out by the roots as soon as its presence is seen as well as felt. But the instruments representing this credit in the form of mortgages and other securities are readily acceptable as collateral securities in the negotiation of loans of bank credit, the form of credit which is to business what the circulation of the blood is to life.

The mortgagee or debenture-holder is contingently the real owner of the premises upon

which he has his charge, and therefore he is doing a generous, although an incidentally profitable, thing in allowing the property to be used industrially by an expert productive employer and employee on payment of a certain rate of interest which is the equivalent of rent. The employer and employee with their skill, labour and time operate the property which, unoperated, would be comparatively valueless. They succeed in earning the interest but little beyond, save the means to purchase the bare necessaries of life. Progress for them, the real workers and value creators, is at an end. Their lives become a mere grinding out of interest for the mortgagee and of the means of bodily nourishment to enable them to keep on doing it. The interest earned and paid in this way represents the surplus of life-energy of employer and employee which should be available for their own progress, less a sum (not however in the nature of interest) which will be referred to hereafter. Maintenance and insurance having been provided for, the margin of earnings represents nothing of the property itself. The property idle would yield nothing, neither maintenance, insurance premium, nor interest. The mortgagee, if obliged to enter into possession,

would have to learn the industry, find the trained help and occupy his whole time away from his normal business activities in himself earning the interest, insurance and maintenance, in which case not only his capital but his skill, energy and time would be locked up. The most far-seeing and intelligent type of employer and employee, after quarrelling with one another for a time and discovering that neither is wronging the other by his demands, but that both are being wronged by a third thing, which is rather a system than a person, emigrate to a new country, where their skill, labour and time are in demand for their own sake, not merely for the sake of earning interest on property, but for the creation of such property which becomes their own, together with its uses, should they arrive in the new country early enough. The early bird of passage catches the worm of interest in the newer lands across the sea.

The conventional justification of the interest to the mortgagee is that his capital is tied up in the property. But that is not so. He has lent merely credit, set out in terms of money in his mortgage, which alleged non-circulating form of credit he may exchange into the circu-

lating credit of his bank at an agreed interest lower than that which he expects to derive from the further use of his credit in any of a great variety of objects which just at that psychological moment are yielding exceptional profits. And still the slaves to this system, the employer and employee who make the value of the property the negotiable mortgage is based upon, work on and on, keeping it going and enabling the mortgagee to derive greater and greater benefits from its use whilst their sands of time run out, their life-force oozes away, until they are replaced by younger men, and come to look with a welcoming eye upon the prospect of a pension of *5s.* a week at seventy. Britons *ever* shall be slaves until freed from the fetters of a financial system which treats a nation's employment-giving property as the " counter " and paper which the property must perforce pay interest upon as the " real money " !

Industrial property cannot be tied up without tying up also the employer and employee essential to its value. The mortgage, and such like charges, are therefore mortgages not alone on property but on human lives. The credit which the mortgagee obtains upon

his paper-credit instrument enables him to obtain mortgages on further property and lives, effectually limiting the progress of both employer and employee without restricting his own, enabling him to extend further and further his tax upon industry, in interest, in the grooves he may force it into, and in the enslavement of its tools and materials, until employers and employees are completely under his thumb. "As 'credit' becomes more and more the vital force of modern business, the class that controls credit becomes more powerful and takes for itself as 'earnings' a larger proportion of the product of industry." *

The whole financial system in its regulation of credit tends towards the same undesirable end. Yet it is a great system; but an Achilles with a vulnerable heel. Our need is to make this heel of Achilles proof against inevitable attack, without quarrelling with the words of Walter Bagehot, "New wants are mostly supplied by adaptation, not by creation." †

Credit instruments are seen to be not credit itself but the application of it to particular uses

* Hobson's "Evolution of Modern Capitalism," p. 255.

† "Lombard Street," p. 79.

in terms of money in which it is always spoken of and is wrongly assumed to be based upon. "Wrongly assumed" is not thoughtlessly written, for there is not in the wide world more than a small proportion in real money of the amounts set out in terms of money on the credit instruments which are at present current. Nor are there in existence credit instruments which represent anything like the cash measure of value of the world's property on which all the credit that can be used with hope of conversion into property must be based. It is the exchangeable value in terms of money of the whole of such property, other than consumable property, which is the measure of the vast reservoir of credit available for liquefying the assets of the world. As the exchangeable value of a slice of credit evidenced in a bill of exchange or other instrument depends upon its capability of being ultimately met by real value, so does the exchangeable value of credit as a whole depend. Credit, in so far as it is anything more than belief in future payment, is therefore evidence, or should be evidence, of the existence of property of corresponding exchange value in terms of money. Credit may therefore have users,

acceptors, and owners. If A purchases goods with his credit, which B takes in payment by drawing a bill on A, which A accepts, and which B discounts at his bank, and the goods are in existence when the bill becomes due, the real basis of the credit used is obvious and attachable for meeting it by the owner of the credit as evidenced by the accepted bill. But if the goods have been consumed, the basis of the credit has ceased to exist, and either B or the bank has to meet it with other property obtainable from A, or from their own stores. If A has failed, and B himself, or the bank, must meet the bill, the original user of the credit, A, was not the owner of the property on which it ultimately rested and to whom, in fact, the credit therefore belonged although it was used by A. That credit is analogous to much of the credit used by financiers at the expense of the nation. Our problem is, why should not the nation have a freer use of its own credit, seeing that in the last resort it has to make it good ?

Shylock accused Antonio of low simplicity in lending out money free of interest, and to this Antonio's troubles with Shylock were chiefly due. In the end, however, it proved

his salvation through the goodwill towards him which it evoked.

Should our State lend out the national credit to its own people free of interest and in Shakespeare's words "bring down the rate of usance with us here in" Great Britain, it would excite contempt for our "low simplicity," but only amongst the Shylocks.

Apart from the fact that immense business development would soon absorb the capital set free, tending to increase the rate of interest from the moment of its fall, the rise in price of securities by the finding of immediate employment for this capital would restore hundreds of millions of depreciation due not to any loss of real value in such securities but to loss of exchangeable value from inadequacy of the necessary medium of exchange.

Credit finds its parallel in the application of scientific devices to industry.

The telegraph, the telephone, the steam-engine, and the motor were adopted with celerity not merely because they made short of time and distance but because they quickened the business turnover. If business must be

done in conditions of slow communication and transport, it takes longer to complete every deal. A given amount of business, representing in terms of money £1000, takes much more time to carry through by postboy and horse-van than by telephone or telegraph supplemented by steam, oil or electric carriage. Under the quick-service conditions the whole transaction takes about one-tenth of the time previously occupied. This means that ten times more business can be done in a given period under the new conditions than could be done under the old. A man trading on a 10 per cent. margin of profit with £1000, who could not turn over his capital more than once in a year under the slow conditions, was enabled by the speedier conditions to turn it over something like ten times, and even upon a smaller margin of profits induced by competition could obtain a larger return from his enterprise.

Now, what quick-service is to the rapidity of the business turnover, credit is to its volume. All the traders in this country and our Colonies, who are denied the use of national and Imperial credit based on the property they own, are in effect restricted in their scale of operations

by a credit system fitted to the days of the mail-coach and the pack-horse. The extent to which they are driven to borrow at high interest, living in fear of being called upon to repay at the most inconvenient moment, is a heavy and vexatious tax on home and colonial development and seriously curtails it. The persistent denial of their national and Imperial rights in the use of their legitimate credit is a dangerous handicap in the world-race for economic supremacy. The British start in the race long ago with such vast resources, ought by now to have placed the British first amongst the nations, with the rest nowhere.

It is far more the lack of credit than of labour which is crippling enterprise amongst the many and limiting it to the comparatively few. Small producers can be made into big ones by acting on the principle that Imperial credit based on Imperial productive though fixed assets may be used to the amount those assets represent in terms of money. The countries of the world flying the British flag will then play an adequate part, each according to its commodity-resources, in finding profitable employment for an ever-increasing

population, and in providing for all the varied needs of the whole. This desideratum will come the more quickly the sooner this financial drag on the wheel of enterprise is removed. A long war will mean our defeat unless we scrap this machine of our own creation which stifles the expression of our general spirit of enterprise and drives our youth and skill not even to our own Colonies but to lands whose Customs bar out not only goods but inefficient workers and receive with a hearty welcome the bright, intelligent, skilful operative, pointing out his new opportunities if they have not been explained to him before he emigrated and making him to the uttermost, aided by the most advanced machinery, one more effective unit in the great structure of home trade which they are ever adding to towards the completion of the industrial edifice which satisfies within their own borders every human need of the nation. It is known that crowds of skilled workers from many parts of our country, who never come back except to fetch their relatives, have been taken to America to start our own peculiar industries there. Workers must be sorely tempted when they can leave home for these better opportunities. The

richest country in the world ought to be able to hold them, and so it could with an enlightened system of finance. Such an exodus directly limits our possible productiveness. A time comes when every man who has gone is badly needed. What, now, of the men discharged from Woolwich Arsenal, whom German agents awaited and took away at good wages to Krupps!

In 1911 nearly half a million people left the United Kingdom, 122,000 of whom went to America instead of to any British Dominions.

The loss to this country in brains and muscle, general productive power and that consumption of goods which is the basis of trade is a great one. It is a lame excuse to say that the absence of these workers decreases the supply of services and thereby raises the price of the reduced supply of services left behind. If they left because they had little or no work, the number of workers is not reduced, the supply of services is not curtailed—a mere excrescence has been removed, a tumour on a diseased economic organism cut away. The needs of the country have been reduced, its demands limited and the scope of its trade cut down. After the operation the disease continues. In so far

as these emigrants went to Canada, 184,000; to Australasia, 80,770; and South Africa, 30,767, compensation is possible in increased commerce between these countries and our own, in British development under the British Flag instead of the Stars and Stripes. In so far as they went to America, 122,000 Britishers went to help this country's most virile competitor, badly needed though they are in Canada and Australia where the population averages only two persons per square mile. How much room there is for them in this country if a means of livelihood and a brighter prospect than an old age pension were assured, anyone with ordinary intelligence can perceive; but, if instead of so much room there were none, would it not pay us nationally as well as imperially to induce such emigrants to retain their British citizenship in going to our Colonies instead of to another country by affixing to such citizenship the privilege of the highly favoured credit conditions of rapid development that we alone can give. Population makes trade, commerce, nations and empires. Whatever capable individuals we merge into another nation we lose, weakening our own and strengthening it, especially when conflicting interests arise.

In the same year the emigrants from the German Empire numbered no more than 23,000.

Is it possible that we can reasonably regard as lightly as we do a desire on the part of 454,527 people to forsake this country as against only 22,690 desiring in the same period to leave Germany? Why should twenty times the number desire to leave the richest country in the world but not to leave the land of German hours, German food and German pay? It is a question for our Government whose Trust is the State.

A little reflection upon the smallness of the German exodus denies us even the cold comfort that it may be properly termed emigration or the outcome of poverty in search of welfare. Many individuals admittedly leave temporarily for the purpose of learning a language, and they serve as waiters, barbers and other types whose duties help them to attain their object by bringing them into contact with those from whom the language may be acquired along with useful information. The system of espionage now known to have been laid on wide and deep foundations over a long period of years may easily account for many more. And for the rest they are few enough to carry out the well-con-

ceived policy of "peaceful penetration" wherein governmental, social, commercial and financial influence in every country is expected to follow upon control of banking, railways, industrial works, raw products, administrative posts and other utilities, materials and situations to the great end of a pan-Germanic world towards which German penetration, whether peaceful or warlike, if not wholly accounted for by the ambitions of individuals, may designedly move.

By loosening the fetters of our credit we can increase the magnitude of every industry we have and promote the growth of many necessary industries which we have not. We can reduce those imports from non-British sources which the longer the war lasts will become the more difficult to pay for. We can increase our imports from our own dominions of things which from shortage of labour or materials we cannot supply here. And we can dispense with the starvation of our energies on the puerile savings crusade of short commons alleged to be in the interests of diminishing the imports difficult to pay for. We can fortify ourselves against a real blockade in the time which it will take Germany to build enough submarines to render a blockade of its

own deadly type effective. It will enable us to dispense with beating the big drum, Barnum-fashion, for War Loans by enabling willing people to subscribe in much larger average amounts than heretofore, others to subscribe who have not subscribed at all, and still others to purchase at par what they have not now the means to purchase even at a discount. So would this extension of our credit multiply possible transactions or exchanges in kind and quantity.

The conversion of old War Loan and Consols into a later War Loan is the exchange of one form of credit into another which has exactly the same basis, *i.e.* the national assets. These assets themselves in the main are not convertible directly, but only indirectly, first through a mortgage, and then through a banker, into either form of credit, without sacrifice partially of the means of livelihood of the men whose use of them maintains them in the category of fixed but productive, instead of fixed and unproductive, assets. Part of the strength of Germany has been a recognition of this fact. By means of loan banks established throughout the German Empire, with the co-operation and assistance of the Government and the Government's bank, every man

possessing any kind of property has been able, although on exacting terms, to get bank credit for the support and furtherance of his business or industry. He was largely able to do this long before the war, and hence the banks in return for lending their credit hold the first charges on all the business concerns which have constituted the wonderful development of business Germany in the past generation. They even promoted many of such concerns when a sufficient number of enterprising men were not forthcoming to solicit their help. That is why and how Germany now is so nearly self-supporting. The fact that the German Government declines to recognize that these property assets are not full and real value, and so allows what really constitute *second* charges to form the basis of their War Loans, does not argue weakness or futility. Nor does it inspire anything but confidence in the German mind. We, on the other hand, in treating our fixed assets as a dangerous basis for our credit (when in hard fact it is our only basis), and in the terms of exchange of Consols publicly acknowledging that we so treat them, by taking for granted that a market-price loss upon Consols is a

real loss, publish a lack of confidence in our country itself and the business assets which produce the means of livelihood and profit of our employers and our employed who together comprise nearly the entire nation; and this must be the impression on the Germany which has tackled the problem. Why is the nation as individuals fighting if not to deny that proposition and to maintain that confidence? What does the nation care for a financial system which requires such a sacrifice? Germany's inflated paper currency may not be sound policy and may warrant criticism of its system on that ground, but on that ground alone. A principle, however, does not cease to hold good because a false step is made in applying it. The road from London to York remains, though Dick Turpin, after setting out upon it, loses his way, or finds that his horse cannot go the distance. Some may say that there are several roads to York. The answer is that so there are, longer and shorter, and more or less rough and smooth, but that they should all be free to the common owner, not barred by heavy tolls to some, altogether barred to others, and really free to only a chosen few.

CHAPTER V

CREDIT APPROPRIATION

"THE idea of appropriation is one quite different from that of gift. As before observed gift is based on relations of industrial dependence. 'Appropriation,' on the other hand, proceeds from a notion of superiority or control. It is the method commonly employed by Government as a means of obtaining funds for its support. It is the method commonly employed by those engaged in many forms of industrial pursuit for obtaining those things from nature which will be useful to mankind but which have not yet been reduced to the control of others. Man has certain wants which he would supply. Around him is nature endowed with all the materials which are necessary to the satisfaction of want. To make these materials available to this end, however, they must be 'appropriated'; the ore must be extracted from the mine, fish must be taken from the sea, the timber of the

forest must be reduced to ownership, in forms which will be useful for supplying human want. In primitive times, among a primitive fishing people, when dried fish was used as money, the individuals of the community procured their funds by means of appropriation. Among a hunting people, skins of beaver and musk, or the hides of other animals, which served as money, were procured in the same way. To a primitive agricultural people wheat and barley served the members of the tribe for funds, and under a primitive industrial regime the metals obtained by the various members of the tribe or clan, were passed from hand to hand as money, with no common stamp, design or official voucher for weight or fineness, such as is known to our modern systems of finance. When, however, commerce and industry developed to such an extent that more careful judgments and closer estimates of value were made in exchange; when the uncertainty of weight and fineness of the coins or metals used came to be an obstruction to commercial and industrial progress; when, by common consent, some uniform standard of judgment was demanded in trade, and the coinage of money was placed in

the hands of a central agency of government, which would give it character and undoubted integrity, *appropriation as a means of obtaining funds was abandoned.* The only method other than that above described as pertaining to industrial dependence was that of exchange." *

But the spirit of appropriation was merely scotched, *not* killed. As exchange developed in extent and intricacy until credit became its real medium, so the spirit of appropriation arose like the Phoenix out of its own ashes, appropriated this medium, and in so doing appropriated the only means worth mentioning of obtaining funds. Behind this appropriation there is still the notion of "superiority and control," and when it is threatened with disaster "the method commonly employed by Government as a means of obtaining funds" comes to its aid. But the Government alone has the right to such appropriation. In the hands of others, it is a free gift from the nation to the financial circle. A free gift which the nation in its own interests should reserve for itself, which in conditions of overwhelming

* "Funds and their Uses," pp. 87-88. F. A. Cleveland, Ph.D., Wharton School of Finance and Economy, University of Pennsylvania.

world-competition it cannot afford to give, and which, in the interests of the property-owning and the non-property-owning classes, it has no right to give.

The great banking interests, in which are included financial interests of many kinds, take deep draughts out of this mighty reservoir of credit. John D. Rockefeller, on surveying the Atlantic Ocean, is said to have remarked, "What a lot of water!" doubtless revolving in his inner consciousness the possibility of harnessing it with pipe lines and tanks, and giving it a loose rein at the price of oil. The great bankers must have a kindred thought in looking out upon the panorama of brain-workers and manual labourers in the cities of the north, the south, the east and the west, upon the passenger and goods traffic of the busy streets and railways, upon ships in docks and upon lines and blocks of property of all descriptions, extending far and wide. They own little or none of this national wealth, for they are dealers in money and credit, written in terms of money, and all that they see and hear and think is translated into terms of money. The lives and property in the prospect have their owners individually, but collectively they are

mentally translated into the money-terms of that credit capital of which they represent the basis, and which constitutes a vast invisible interest-earning national credit fund which our magicians or monopolists of finance appropriate.

How vast the sums of interest they annually derive from lending it to the individual owners of the collective property upon which it is based, none can compute. The prodigious trade of Great Britain, whether conducted for the benefit of the nation generally, or only a section of it, has become essentially a trade on borrowed capital, credit-capital provided by a financial circle which, by drawing interest and commissions upon all trading finance, manages to absorb the lion's share of the real profit that accrues from it. London is the great international credit centre. Its banking and financial interests, its "money (?) market" and its Stock Exchange hold first place amongst the world's financial organizations. Foreign payments are made and foreign loans are floated. It is the clearing house of the major portion of the commerce of the world. The credit it manipulates conditions world-wide business. Its financiers and their connexions in normal times dominate

the sum of credit-capital capable of being borrowed for trade in Great Britain and many other countries. The vast amount of credit furnished by the banks alone is evidenced by the figures handled by the London Bankers' Clearing House. These average about £16,000,000,000 yearly, and "so admirable is the system that not a single bank note or sovereign is required for the settlement of the claims."* They are made up of cheques drawn in respect of specific business transactions varying in amount and kind. These cheques have been accepted by the banks in redemption of their credit, which they have sold or pledged to the drawers of the cheques in exchange for either cash or promises to pay and interest, the promises to pay being backed by personal reputation or securities, which are charges upon property or earnings. No legal tender in the shape of paper or coin is required beyond comparatively small change in the manipulation of this immense pile of specific credit. The legal tender that has been deposited with individual banks varies little over given periods in the coffers, strong rooms and Bank of England deposit accounts of these banks.

* "Pitman's Business Man's Guide," p. 98.

It enacts a very small part in the cast of this play "Money"; money that is written about on scraps of paper which are supposedly convertible into it, but in fact are not; firstly, because the operation, if attempted, would be found physically impossible in a reasonable limit of time, and, secondly, because so much money does not exist. The total of the small amount of legal tender in hand as shown by the balance sheets of the banks (a total which would be considerably smaller if the accounts of all the banks were required to be made up simultaneously to a particular date), together with the fact that a large proportion of it is always "in hand," shows how small a factor cash really is in the gigantic transactions upon which the banks in one way or another, but largely in interest, draw their expenses and their profits. It is banking credit which really constitutes the *money* talked and written about. It is banking credit upon which the cheques are drawn. But when in a crisis all the documents based on banking credit, of which this mountainous paper range is only a part, call for redemption in cash, it is seen that banking credit is really national credit based on national assets, for the Govern-

ment is compelled to step in, accept the impossibility of immediate redemption, postpone redemption and provide Treasury notes and rediscounting facilities for such partial relief of the tension as seems imperative. The banks are allowed to draw upon national credit in this way, in return for services performed in the national economy, without which the national automobile of business would be shattered. On the other hand, were national credit boldly used on its own solid base, admittedly used and properly regulated through the machinery of banks, our contention is that the banks would never be reduced to inability to redeem their legitimate credit and the necessity of seeking Government aid. Besides which, the national credit automobile of business would under such circumstances carry us much farther than we can go now, far as the present utilization of credit in the system of business has taken us. How far the nation itself as well as the banks should be allowed to use the national credit as a means of making business profits and promoting business enterprise seems a more reasonable question than whether it should be so used or not.

It is seen that besides the use of credit

which is their legitimate share of the national credit, banks use, for the purpose of profit-making, large slices of it, which they are allowed to annex.

The amount of it which is appropriated in the form of finance bills is alone remarkable. "Among practical exchange men, a financial bill means just one thing—an unsecured long bill of exchange drawn by a banker in one country on a banker in another and sold for the purpose of raising money. Sometimes the drawer carries a balance with the drawee, sometimes not; usually not, the drawee 'accepting' the long bill drawn upon him for a fixed commission. Needless to say, the house abroad has to have a high opinion of the house at home, or has to be in pretty close connexion with it, before it will agree to accept its unsecured drawings to any extent.

"This is the finance bill as it is—not widely different from accommodation paper among international bankers.

"Such a process may be continued indefinitely, is being continued indefinitely, in fact, by many banking houses in New York, who have come to regard the money to be

raised by the sale of these finance bills as a part of their regular working capital.

" Where is the limit to the practice ? Only in the credit of the houses concerned, in the willingness of the exchange market here to absorb offerings of their long paper, and the willingness of the London bankers to discount it when it is sent abroad. Otherwise there is no check upon the amount of finance paper that a house might put out. No mark distinguishes it from any other kind of long bill; the banker who buys it cannot tell whether he is buying a bill of exchange secured by railroad first mortgage bonds or whether it is a finance bill put out, with nothing at the back of it, to 'raise the wind.' There is no way for him to tell. His protection and his only protection is the character of the drawer and the acceptor and in his knowledge of how much of the paper there may be knocking around in the open market." *

With the money raised, stock may be purchased and the parties to the transaction may not have had the chance or may not

* "Banking Practice and Foreign Exchange," vol. viii of *Modern Business*, issued by Alexander Hamilton Institute, New York.

have felt disposed to sell their stock before the bills become due. How then is the firm going to raise the money to send abroad to its correspondents? By renewing, *i.e.* selling more long bills and using the proceeds to send across to retire the first set of long bills.

It is curious how credit may be used in this way, given two firms of reputation, one on either side of the Atlantic. Pierpont Rothschild, of New York, may draw bills up to a million, or any amount, in sums of five or ten thousand pounds, which are accepted in London by Lord Morgan. These bills are sold in New York for cash, or, rather, bank credit, and Pierpont Rothschild raises thereby, for purposes of the moment, close on a million pounds of bank credit. Reciprocally, Lord Morgan of London may draw corresponding bills which are accepted in New York by Pierpont Rothschild. These bills are sold in London for cash, or rather, bank credit, and by means of them Lord Morgan raises for his purposes close on a million pounds of bank credit. When the bills are due, in say ninety days, and the deals for which the two millions of money have been raised are not advanced to the stage of completion, the procedure is repeated and the

bank credit raised on the new bills is used to extinguish the old. Should a financial crisis in either country occur of a magnitude that threatens to bring down the big banks and financial houses, bank credit ceases to be available, cash for such transactions was never available, and the Government, for the sake of the credit of the country, steps in to aid the tottering institutions, steps in with the credit of the people backed by the possessions of the people, proving that one of two things was really being used in this financial jugglery—either the credit of the nation or nothing at all. It was an appropriation, by bearers of great names, of part of the credit of the nation, for something tangible came out of it, and you cannot get something out of nothing—*ex nihilo nihil fit*. And it is so used to the extent of hundreds of millions of pounds, just such sum in terms of money as a limited number of favoured individuals can possibly use in the special class of deals which take their fancy.

Banking credit is alleged to be that which these bills are drawn upon, but that it is really an appropriation of national credit by the banks becomes the more palpable the more deeply the question is probed. £5000 per

annum is made by a certain small financial house the current obligations of which, always oustanding, in paper of this kind, amount to £1,000,000, but which would not be in a position to liquidate a twentieth part of those obligations if called upon to do so at any time, crisis or no crisis. American and British banks alone have very many millions of this type of liability running against them, upon the security of this single-name and double-name paper, on demand and on time, backed by no stocks, bonds, mortgages, real property, personal or other securities. "Bold trading on small reserves," says W. S. Jevons in "Money," page 320. But the reserves are not small when, as our latest crisis proved, they are really the credit, or part of the credit, of the whole community, appropriated by the banking community, and lent out at interest to a favoured section of the community, who use it to extort further profit in excess of this interest out of the rest of the community. W. S. Jevons further states, in the above-mentioned work, page 321, "the whole fabric of our vast commerce is found to depend upon the improbability that the merchants and other customers of the banks will ever want,

simultaneously and suddenly, so much as one twentieth part of the gold money which they have a right to receive on demand at any moment during banking hours." Since that day, however, it has been clearly seen that they could not in their own interest want the gold, that if they could get it the handling of it would be an enormous check upon their own trading, and that of the communi y, and that owing to the gold money talked about being really "cash" which includes coins and paper, with much more of the latter than of the former, if they did want it they could not get it. Only by appropriation of the property on which national credit is based could the banks meet, with intrinsic value, that appropriation of credit, which they have lent out, were the merchants and other customers of the banks ever to want, simultaneously and suddenly, so much as one twentieth part of the gold money which they have a right to receive on demand. But this credit is too useful a medium of exchange, too closely bound up in exchange itself, too much the possession of a great people which armies and navies are prepared to support, to be brought into question when Government action in a crisis discloses its identity.

What is gold compared with it? Useless at home except for trinkets and small change. Useful abroad in places where those traded with are not sufficiently enlightened or economically advanced, or are dubious of our credit. In the last-named case it may be placed on reserve there in a bank and made to command for us if we own the bank several times its nominal amount in Banking Credit, but unless it is so used it is there, too, useless, except for the same purposes of small change and ornaments. Even this deliberate appropriation of our national credit by the banks for the sake of profit—profit made therefore out of what belongs to the owners of our national assets and not to them—is better for the nation than prohibition of the use of national credit. That banks are proper machinery for dividing it into separate kinds and amounts the growth of its use has proved. Without its appropriation by them in the insistent cry for profits and dividends its utility as a medium of exchange might never have been discovered or when discovered properly appreciated. The value of freer use of it by its rightful owners may be gauged from the benefits which have accrued from it under its restricted use in

limited circles upon payment of the price. The financial difficulties of merchants and manufacturers are traceable to the necessary investment of too much capital in stock which cannot be sold quickly without loss because markets have gone against them under conditions over which they have no control. The goods have intrinsic value but not exchangeable value at the time. Unless the banks provide at this psychological moment that bank credit which is always negotiable or exchangeable, whether that which it rests upon is negotiable or exchangeable or not, bankruptcy is inevitable with its train of consequences, capital losses, disruption of organized business, discharged employees and workless employers, misery to these and their dependents in broken homes, aching hearts and pinched bodies, and creation of such English beggars as that one in the Jubilee procession who was heard to say, "I own Australia, Canada, New Zealand, India, Burmah and the Islands of the Far Pacific, and I am starving for want of a crust of bread. I am a citizen of the greatest power of the modern world, and all people should bow to my greatness. And yesterday I cringed for

alms to a negro savage, who repulsed me with disgust."*

Enlightened bankers do not withhold credit unreasonably according to the criterion of the system because the issue of credit is their means of making profits. Nevertheless apart from the question of how much of those profits are legitimate is the question of leaving in their hands the right to decide between the reasonable and the unreasonable in every issue of credit. The reputedly rich find it difficult enough to obtain sufficient credit if they are outside the financial ring. The poor find it impossible. Advice to the labouring classes to save for the sake of the benefits they will derive is under these circumstances almost a mockery. Of course saving is their only means of obtaining funds for the establishment of a business. After many years of "exchange of labour for wages," and of saving a surplus beyond maintenance, enough may be saved with which to equip a business. Before the labourer is too old he starts the business and is allowed the use of credit measured by what the savings he has invested in the business will sell for on a forced sale. He is charged heavily for the credit

* Norman Angell's "The Great Illusion," p. 45.

both in the price of his goods and in the loss of discounts. He has already paid the higher price of the small buyer as compared with that of the large buyer. His difficulties grow by what they feed on. His stock is comparatively high priced and therefore unsought. He goes under. Yet his savings in the form of his business premises, and his work in accumulating the savings and in running the business, represented a small portion of the national assets upon which our national credit is based but they were swallowed up in interest and charges and losses on forced sales entailed in the payment for the use of that small portion of the national credit to which he, the owner, was entitled free of charge except for charges of redemption over a period of time. It is not the inability or the lack of will or ambition to run the business, or neglect of it, which has ruined him, but the lack of that amount of his own credit which would have furnished him with free working capital over a period long enough to establish himself in his business. *His savings have been swallowed up by those with larger credit than himself.* It is looking into vacancy, right over the head of the problem, to say that large financial companies,

and the Post Office, and war loans are organized to facilitate saving and "furnish capital to large enterprises that give him further employment."* The man is old, worried and weak, and his growing son, beginning to understand, is pained, moody and angry at something that he feels to be wrong and grossly unfair; then is he fit soil for the seeds sown by agitators.

Yet, there is not a bank or financial house in the country which would not fail as this man fails if charged for the credit it uses at the same rate as he is charged, or half the rate, or any rate beyond the small charge which it makes upon itself for actual deposits in the form of deposit interest. The man, it may be said, might have offered his credit in exchange for banking credit if he knew anything about it, and so have saved himself. But "the credit which the labouring man tries to dispose of for capital funds is seldom considered worth as much as the money for which it is offered."† Besides, time cannot be wasted upon small matters when large ones are knocking at the door of consideration. Hence, the need for any decision in such a case should

* Cleveland's "Funds and their Uses," p. 91.

† *Ibid.* p. 110.

be removed from the province of the busy bank manager, so that he may proceed uninterruptedly in drawing his drafts upon national credit and booking them over as banking credit, to be drawn upon as deposits by the magnates of the day to the tune of many millions.

Enormous drafts upon national credit are drawn by financial interests in the floating of international loans. Take the case of Germany wishing to float a foreign loan in Great Britain. The business of placing it is undertaken on commission by financial houses in London with connexions in various capitals of the world. What Germany issues is paper pledging its credit as represented by the word of the Government to pay the principal sum within a certain period and in the meanwhile annual interest at an agreed rate per centum.

That is the picture on one side of the shield. On the other side we have Germany through its traders, in consequence of Government orders they have received, giving this country and the countries where the other capitals are located large orders for commodities useful in Germany, most probably in preparing for war against the particular country from which she is borrowing. Financiers in London who have underwritten

the loan, *i.e.* guaranteed that the German paper securities will be accepted by British or kindred investors in exchange for cash or banking credit, take the securities from Germany and issue them if they can to such investors. If the securities cannot be issued at the time, they are held for a favourable opportunity. The financiers, however, regard them as money value.

The ordered goods, when supplied to Germany, have to be paid for. Debts payable to Great Britain are incurred by the German traders who receive the goods. The banks in Germany lend such importers credit upon which they may draw in order to purchase bills payable in London which the same banks issue and which the financial houses in London who have underwritten the aforesaid loan duly accept. These bills are posted to the British exporters, who sell them to their bankers and so acquire the amount of banking credit which settles their accounts for the exported goods.

The bills drawn on London and accepted by London banking houses of standing, irrespective of nationality, become part of the assets of the British banks amongst their bills receivable. The goods, or intrinsic value, have

gone from Great Britain—Germany has parted with nothing but paper. The importers pay with German banking credit which the borrowers can repay on selling the goods at a profit to German traders or the German Government. The German banking credit, in order to be acceptable to British exporters, is converted into British credit by being turned into bills drawn on London and accepted by financiers operating in that city. Should the aforesaid loan not have been taken up by British investors so that the proceeds might liquidate the German obligations under the accepted bills, these bills are renewed by mutual arrangement between the holders and the acceptors, or more convenient methods, until either the scrip is sold or a war occurs. In the latter case, the bills on London, which have now passed through various hands, represent vital assets, but bear small trace of their trading origin, and they are guaranteed by the British Government in the interests of the national credit and in order to prevent a financial collapse. Such a position existed at the outbreak of the present war to an extent ranging from £50,000,000 to £300,000,000. The real figures, whatever they are, represent that amount of British credit which our

Government had to appropriate and pledge. This British credit which its real owners are denied the use of except at high interest, an excess of collateral securities, and much risk and anxiety, can yet be used to aid a foreign nation to obtain free of any real charge and either from or through us commodities useful for carrying out Machiavellian plans first to destroy our fighting force and then to dispossess us of our property.*

No doubt when we win the war with our Navy and our Army, we shall balance the account and exact a penalty, so proving that our property through manipulation of our credit cannot be filched from us, and that we are not so complacent as such happenings might lead an enemy nation to suppose, but merely lax in the application of British resources to British interests. When the British discovered the aniline dye process they were not watchful enough over its development and the variety of its possible applications, but, to the peril of one of our main industries, another nation was.

* There is no intention in these references to question the *bona fides* of international financiers not of British origin established here. Their operations do not imply knowledge of the ulterior motives of an enemy.

So, too, as to the uses of our national and Imperial credit. It is those who study it abroad who are beginning to know most about it. It is a German writer who says:

"What the far-seeing philosopher Berkeley said a century and a half ago in speaking of England, that the discovery of public credit was the discovery of a new gold mine, and what James Stewart, and more particularly Sinclair, had to say of its efficiency as an instrument of political power, all this has been realized in actual fact during the course of a hundred years after their time." *

But like the aniline dye process, it has been realized in actual fact rather by others than by ourselves both as an inexhaustible gold mine and an instrument of political power. What wonder that those who knew and understood its value should strive to capture all that it is based upon, thereby capturing it; that they should build the mightiest war machine in history directed to this one purpose, working while we slept, prompted by that instinct of appropriation which arises in earliest human kind and dumb animals alike simultaneously with the feeling of hunger and the

* Cohn's "Science of Finance," translated by Veblen.

need of food? Until the last of all existing nations shall have abandoned this spirit of appropriation, as yet abandoned by none, protection on the same great scale as that which we have to protect is the bounden duty of our people so that never again will a nation attempt to "destroy England . . . not in the field, but in the counting house and in the factory, annihilating the basis upon which in the long run armies must depend for maintenance," * or reason to herself that "the moment war breaks out she need pay nothing. If she is defeated, she will merely be compelled to pay what she was already obliged to pay. If victorious, she need never pay interest or principal. Would that not be a stake many times worth playing for, compared to a war indemnity of any size whatever, and, when such a manœuvre might also not improbably compass the control of the world's commerce, what German would doubt that the chances of war are better than those of peace." †

The change in our credit system necessary to render the burden of such protection both easy and Imperial is not the less our bounden duty.

* Usher's "Pan-Germanism," p. 88. † *Ibid.* p. 96.

It has been cited as a truism that capital invested abroad is good for the lending nation seeing that it is sent in the shape of not gold but commodities and services which make trade, wages and profits. The instance just dealt with, however, of capital sent abroad in the shape of goods and services disproves through the development of the applications of credit to the mechanism of trade that this is necessarily so or that it is necessarily a good thing for the sending country. The foregoing instance shows that A and B, the suppliers of the goods, were paid by means of the banking credit of C and D, the bankers, who took as assets the accepted foreign bankers' bills, and who were recouped not by the said foreign bankers but by the British Government, out of funds drawn upon the credit of the whole nation. A and B, the exporters, are therefore paid not alone their costs but their profits also, by their fellow-countrymen, whilst the loan to the foreign country is made by banking credit in exchange for paper securities if it be made at all. Special British credit pays for the goods and services. Other special British credit pays for the foreign paper. In the crisis general British credit recoups the special

British banking credit which pays for the paper. Meanwhile, doubtless, the British Government holds Germany responsible from the decks of our battleships and with the men behind our land and sea and aircraft guns. But only if we have enough of these can the mischief be undone. It will have been unfortunate if the commodities and services in this instance were transformed into too great an excess of enemy guns over British ones, for then we shall have supplied the enemy to our own undoing with guns which we thought we could not afford for the protection of British life and property and given free to enemies the benefit of credit supported by, yet denied to, traders who are struggling in the interests of our country.

In *bona fide* loans of British capital lent abroad it is not even necessary that the exports which will in due course be paid for with interest shall have been sent by Great Britain, the lending country. The manipulation of British credit, all at the risk of the whole nation and not merely that of the financial operators profiting by the deal, may direct such exports from other parts of the globe, without their having come into our docks,

and therefore without their figuring in our tables of re-exports.

This use of British credit merits national condemnation when it cannot be defended as so used even in the interests of the British Mercantile Marine.

The operations of our own Government in British credit are a matter of course. In both its receipts and payments credit is the medium which except in its small change transactions it now necessarily adopts. Its taxes are "transfers of credit from the accounts of the taxpayers to the account of the State." * "The collector is legally entitled to demand cash; in practice small sums only are so paid. Having paid what he has collected into his local bank, the collector remits it daily to the account of his head office at the Bank of England in Threadneedle Street." †

"If he banks with a local branch of the Bank of England, the branch itself notifies the bank in London, and the bank in London gives credit for the amount received, while the branch deducts it or 'writes it off' the collector's local account. If he banks with a

* Hilton Young's "National Finance," p. 102.

† *Ibid*, p. 104.

local agent of the Bank of England, the collector receives from the agent a bank receipt for the amount paid in and sends it to the bank in London. The amount is then 'written on' in London and 'written off' in the country. That is the way in which the great bulk of the remittances are made. If his bank is neither branch nor agent of the Bank of England, the collector draws a bill at sight (from Scotland a seven days bill), which is the same thing as a cheque, on his local bank, and sends that to the Bank of England. The bank gives credit for the amount of the cheque and deducts that credit from the account kept with it by the London head office or London agent of the collector's local bank." *

All revenue collected is dealt with in a similar way whether from Customs, Excise, Inland Revenue, Post Office, rents of crown lands, woods and forests collections, or dividends from Suez Canal shares.

Payments are effected by credit also. "When the liability of a department to pay money to somebody is fully matured, it makes out a draft upon the paymaster-general for the amount and gives it to its creditor. Such

* Hilton Young's "National Finance," pp. 104–105.

drafts are signed in the department by a special officer called the accounting officer or his deputy, and countersigned by some other officer of the department designated for the purpose. Daily the departments transmit to the pay office a statement of the drafts so made out, which is their authority to the paymaster-general to make payments for them. Their authorities cover either single payments or series of successive payments.

"The recipient of the draft takes it to the pay office. Payments there are made on the personal application of the payee or of an agent of his, for example his banker, only; the office will not remit money or cheques by post. At the pay office the drafts presented are compared by a large staff of examiners with the authorities received from the departments. If all is well, the payee may get payment in one of several ways. If a small amount only is involved, not more than a hundred pounds, the office will pay him, if he pleases, in cash.* For this purpose it keeps a small balance of cash on the premises. Every day enough cash is obtained to bring the amount in hand up

* "Cash" means probably legal tender paper, not necessarily gold.

to a few thousand pounds. The cash is drawn by means of a cheque on the drawing account at the bank. But that covers a tiny portion only of the total payments. For bigger sums, if the payee of the draft has no account with a bank that banks with the Bank of England, he is paid by a crossed cheque drawn on the drawing account. To get payment for that he has only to present it at the Bank of England through his own bank. If the payee has an account with a bank that banks with the Bank of England (as all the big banks do), the pay office follows another and a preferable course which avoids the risks involved in drawing and presenting a cheque. The payee sends his draft on the paymaster-general to his bank. Next day a clerk from the bank attends at the pay office with all the drafts of the sort received that morning from its customers. At the pay office the departmental authorities for the payments are verified, and on the same day an authority is sent thence to the Bank of England to write off the total amount of the drafts from the drawing account to the account of the bank in question. Finally, the payee's bank splits up the total credit thus received amongst the accounts of

its customers. In any case, together with his order for payment the payee presents to the pay office a receipt, signed on a form appended to the order, which is retained and sent by the pay office to the authorizing department as a voucher for the payment, to be used subsequently for purposes of audit. That rounds off the system of checks as between the pay office and the departments. As between the pay office and the bank, accounts are checked by a passbook sent daily from the bank to the pay office, which is compared with the counterfoils of cheques, bills and authorities for writes-off." *

"The public money has been treated from its cradle in the pocket of the taxpayer to its grave in the pocket of a creditor of the State, and in the whole course of its life's history no cash payment has been necessary, and, as likely as not, only one negotiable instrument of credit has had to be drawn. An importer of dutiable goods, for instance, pays the customs duty by a guaranteed cheque on a local bank. The tax-collector pays the cheque into his local bank. It is cleared by that bank at the local bankers' clearing house,

* Hilton Young's "National Finance," pp. 130–132.

the bank on which it is drawn writing the amount off, and the bank which receives it writing it on to its books. A second cross-entry in the books of the recipient bank and the Bank of England in London transfers the credit to the account of the Commissioners of Customs and Excise. A third cross-entry in the books of the Bank of England sees it safely into the exchequer account. A fourth sets it free again in the exchequer credit account of the paymaster-general. A fifth transfers it to his drawing account. A sixth brings it out of the public purse into the account of the payee's bank at the Bank of England, and a seventh and last transfers it to the account of the payee at whatever branch of his bank he keeps his private account." *

The drafts upon national credit made by the Government in the form of loans from the people constitute the main portion of the National Debt. This will soon have reached the gigantic sum in terms of money of more than £3,000,000,000. To the recent loan there were about 1,000,000 subscribers. And the subscriptions, apart from those dealing with con-

* Hilton Young's "National Finance," p. 133.

versions of Consols and old war loan, amounted to about £600,000,000. An overwhelming proportion of this amount was subscribed by those having a monopoly of the use of national credit, owing to their control over the machinery whereby it may be used. These subscribers were comparatively few. Three banks and two insurance companies answered for £100,000,000. It was solely their position in being backed by the national credit through the sanction of the whole body of the people as represented by the Government at the time of the crisis which transformed them into this position of abounding affluence. The majority of the other large subscribers, a small proportion of the total 1,000,000, were persons and institutions similarly placed in the crisis. Yet, from a position in which they are dependent on the nation they are enabled to place a tax upon the nation to the extent in this one instance of nearly the whole of the interest on £600,000,000 at 4½ per cent. or £27,000,000 per annum plus redemption charges. That is to say, a small section of the community is enabled to tax the rest of the community through something which mainly belongs to the taxed.

To illustrate. One of the banks which, like

all its contemporaries, was so recently on the verge of failure, applies for £20,000,000 of the Loan. It cannot possibly pay in legal tender, whether paper or metal. Nor can it pay in securities. The securities it holds are mainly in pledge against loans of its credit which it has already made to customers and these securities are therefore hypothecated in respect of its contingent liabilities. Even if it could pay in securities these would be as unsaleable by the Government as in the emergency they were found to be by itself except at ruinous prices which even then would not have been paid in legal tender but in banking credit by cheque on the Bank of Chaos. But if it cannot pay its subscription in legal tender or in securities, in what can it pay? In Credit in the form of book entries! Its application cheque and later ones are paid into the Government's War Loan Account at the Bank of England. These cheques are credited to the Government and debited to our particular bank, in the respective accounts in the books of the Bank of England. The credit is immediately drawn upon by the Government by cheques in favour of the suppliers of war materials, who pass these cheques to their own credit into our

particular bank which happens for simplicity's sake to be also theirs. These cheques again find their way to the account of our bank at the Bank of England and are there credited to the account of our bank and debited against the account of the Government, thus offsetting the earlier reverse process and balancing the two accounts. Our bank obviously has lent the Government the right to draw cheques upon it up to £20,000,000, less discount, commission and bank charges, in exchange for £20,000,000 in War Loan Scrip upon which it will receive £900,000 per annum for thirty years or a sum of £27,000,000 in interest alone, payable out of the taxation of the whole people. *Very handsome remuneration indeed for mere book-keeping!* At the end of thirty years, doubtless much to its regret, it will receive back its credit of £20,000,000 on redemption of the War Loan Scrip out of a further Loan which it will similarly help to finance, or again out of taxation of the whole people. The total sum of interest alone payable on the loan of £600,000,000 over the period of thirty years is £810,000,000 and of principal and interest £1,410,000,000. In the case cited the only persons who have contributed value to the transactions are the

employers and employed who produced and supplied the war materials. They gave the materials in exchange for the paper bearing the signature of the Government. The attempt to convert that paper into actual cash would produce another financial crisis. But it is not necessary and it would be inconvenient to so convert an overwhelming proportion of it even were this practicable, so every one is content to take its convertibility for granted and let the question go at that.

If everybody always required his cheques turned into cash, not only banking but the bulk of the business of the country would collapse because of the insufficiency of the cash to cope with the number and magnitude of the transactions. It is this necessary evil which makes the financier's opportunity. He provides the medium for making the exchanges in credit instead of cash. But as there must be value behind the credit (and this he does not possess) he cannot really provide credit of his own. This must be the credit of the people who make it good, of the employers and employed of the nation who sooner or later produce the value behind both principal and interest. The nation is, as it were, the water, and

he is the reservoir, the meter, the pipe, the tap, the gearing through which it is collected and distributed. But the water cannot flow except by his regulation. He is its master. He it is who can make his own charges and conditions. Here the Government, which ought to govern both water and gearing, does not really govern although it is supposed to represent the nation. It merely acts as the tax collector for the financier, so that in course of time, little by little, he will come to own the water or the nation itself. The Standard Oil Company became an all-powerful business concern by acquiring the ownership of the oil tanks, pipe-lines and the other means of distribution, not by owning the oil. That came afterwards when it was of no more value to the owners than the distributors cared to make it. Our financial community are our distributors and the national credit our oil. Our distributors acquire our national credit for nothing beyond the mere writing out of the amount and they distribute it at the best price our needs will pay.

If, by a legitimate extension of the use of credit, the nation came into control of its own, such a loan as our largest war loan would be several times over subscribed even if the

interest were as low as 3 per cent., the number of subscribers would be far more numerous, and the tax upon the people instead of coming back in chunks of interest to the few would come back in slices to the many. The whole weight of the cost of our appalling debt will continue to fall upon the many in the interest of the comparatively few, weighing down the many by taxes and restrictions of credit for years after the war unless the principle of the operation of national credit by the whole of those upon whom it really rests is admitted into our credit system. Bad times have been predicted, and they will surely come unless that national need has been forced upon the powers that be by the experiences of the war and the financial evils which it has moulded into such bold relief.

The sectional Government operations in the field of finance in the form of municipal loans made through one or more of the big financial institutions whose stability depends upon neither gold nor other reserve but upon the national credit, bring grist to the same mill. Exchangeable banking credit is provided in return for promises to pay principal and interest received from the municipal author-

ities who obtain the money or the wherewithal from the busy bees whose lives they have jurisdiction over. If these human honeymakers had the right to use the section or a part of the section of national credit which they really stand for, they could take up the loan amongst themselves and receive back in interest much of that which they pay in rates. But the financial system in the control of a few ordains that the honey of the many shall be gathered as rates and handed over to the few as interest and redemption charges. Only with the handing over of actual gold in every case, which is absolutely impossible, because not a tithe of the required amount of gold exists, could the lenders claim that they have parted with value of their own, deprived themselves of the use of it, and thereby justified their receipt of the interest. They continue on their wealth-producing way with the municipal paper convertible in their hands into the same kind of banking credit which they have lent and backed by the same national credit until the vast majority of the subjects of the entire kingdom are working for them in order to pay interest on the use of their own birthright. So truly has Esau sold his birth-

right for a mess of pottage which he uses in part not even to feed himself but to feed the man who buys the birthright!

On the strength of the national credit backed by the Navy, the Army and the will of the people, big financial institutions exchange the whole of their funds, collected even in twopences from the masses of the people, into interest-bearing securities which are charges upon industries from which the twopences are drawn and which therefore tend to depress the rate of wages which such industries can afford to pay. In such way does the implicit appropriation of national credit tend to injure the general welfare notwithstanding the benefits conferred upon individuals by the principle of insurance. One insurance company with a paid-up capital of £5000 has nearly £8,000,000 in investments. The depreciation on these investments which have been duly written down comes out of the premium receipts, or, as the case may be, out of the twopences of the poor, to which extent the benefits of the insured are further reduced. With a legitimate extension of the use of the national credit many of such investments could be repaid and the insurance companies, friendly societies, build-

ing societies and other institutions find other uses for the enormous credit funds which they would then have at their disposal for the further development of the country's industries and resources.

The amount of the national credit appropriated by the financial community and utilized consciously or unconsciously—the latter, it is to be hoped—to the detriment of the many, who in great numbers of instances, as property owners, are more entitled to the use of it, can be measured by nearly all the assets of the great and the small financial institutions of the entire country, for it is national credit or the basis of national credit which they represent. With the collapse of national credit they would collapse. Their support would fall from under them. Yet this support bears other burdens. "London supplies credit to the rest of the world for financing the movement of its produce from one foreign country to another." *

Behind the London credit stands the national credit, and it is this which is so used almost without limit for the benefit of all the outside world and our financial community,

* Hartley Withers' "War and Lombard Street," p. 55.

largely at the expense of those who have staked their all in fixed assets in our own country and whose simple faith has produced for them "the one result that is most terrifying to bankers, that is to say, locked up their assets and made them unrealizable." *

* Hartley Withers' "War and Lombard Street," p. 16.

CHAPTER VI

THE REAL BASIS OF CREDIT

W. S. JEVONS' advocacy of the cheque bank does not place him high in the list of financial writers on the subject of the basis of credit, although one may assume that under good management and backed by the Government that institution would still live, whilst any bank not backed by the Government in an emergency would, even with good management, have to give up the ghost.

Walter Bagehot in his nearest approachment to this subject deals with bank reserves against sudden demands for repayments of deposits rather than as bases of credit. He says that "the amount of the liabilities of a bank is a principal element in determining the proper amount of its reserve is plainly true; but that it is the only element by which that amount is determined is plainly false. The intrinsic nature of these liabilities must be considered, as well as their numerical quantity.

For example, no one would say that the same amount of reserve ought to be kept against acceptances which cannot be paid except at a certain date, and against deposits at call, which may be demanded at any moment. If a bank groups these liabilities together in the balance sheet, you cannot tell the amount of reserve it ought to keep. The necessary information is not given you." *

That is very true in respect of bank reserves as a basis of the banking of his day, in which even his caution required him to place his apprehension-minimum at no more than £10,000,000 for the reserve of the Bank of England. The manœuvre he describes (" Lombard Street," page 310), by which the German Government was able to take large amounts of gold from the Bank of England and was in a position to break that bank, had it so desired, clearly shows that an advanced state of credit operations in his day had been reached, and was understood and engaged in by the German financiers. The still more advanced credit system and German knowledge of it enabled Germans before the war to get free goods and services to an enormous

* Walter Bagehot's "Lombard Street," pp. 303-4.

extent, and to dispense with our now more carefully guarded gold.

But with all the advice of Walter Bagehot and the increased reserves maintained by the banks, none of them could fulfil their obligations if called upon to do so to-day. All the great financial institutions would be found insolvent in such circumstances, and in the midst of the recent great crisis millionaires must have wondered whether their riches had taken unto themselves wings and made them paupers. And paupers they were, until Lloyd George laid bare the magic pedestal of national support and bade them mount it. These men have done well since for the sake of themselves, and as their financial knowledge and skill have been of such value, probably also from patriotic feelings for the sake of the people.

In the days of John Stuart Mill credit as now established did not loom very large on the horizon of trade and commerce, and what it was or whence it came was not well understood.

In chapter xi of his "Political Economy" Mill writes: "The functions of credit have been a subject of as much misunderstanding and as much confusion of ideas as any single

topic in Political Economy. This is not owing to any peculiar difficulty in the theory of the subject but to the complex nature of some of the mercantile phenomena arising from the forms in which credit clothes itself; by which attention is diverted from the properties of credit in general to the peculiarities of particular forms of it. As a specimen of the confused notions entertained respecting the nature of credit, we may advert to the exaggerated language so often used respecting its national importance. Credit has a great but not, as many people seem to suppose, a magical power; it cannot make something out of nothing. How often is an extension of credit talked of as equivalent to a creation of capital, or as if credit actually were capital. It seems strange that there should be any need to point out that credit being only permission to use the capital of another person, the means of production cannot be increased by it, but only transferred."

But surely that is enough. If Mill had seen, as we have seen in these fateful times, the "permission" by the Government to use the capital, floating and fixed, of "another person," composed of the nation itself, to support the credit-users, who controlled indirectly the

means of production, and directly the means of exchange, he would have seen in this credit, which is "only a permission," not only a power "great" but indeed "magical," in that it banished insolvency and substituted nearly inexhaustible resources; he would have seen in this not alone something of truly "national importance," but also a creator of capital, or better still, exchangeability, in any sense that matters.

He derides projectors who would cure all the economic evils of society, "by means of unlimited issue of inconvertible paper," and claim "to be able to pay off the national debt, defray the expenses of government without taxation, and in fine to make the fortunes of the whole community by printing a few characters on bits of paper." "The philosopher's stone" certainly "could not be expected to do more." But what philosopher's stone could accomplish that which pledging the national credit accomplished in the time and space—a discussion at a table—in which credit recently accomplished it!

But if credit is only a permission that permission is also a promise.

It promises to transfer, if need be, every

British home and business. Against every home and business the credit instruments are drawn, and the Government of the day accepts them on behalf of the people.

John Stuart Mill, could he step back from the great beyond, and carry his past views to their present logical conclusion, in the light of present-day practices, would embrace the doctrine that modern credit is based on the assets, fixed and liquid, of the whole nation, and protected, as they are protected, by our fleets and our armies; that that credit represents in this sense not merely a transfer of capital, but capital itself; that in the revival of credit when our Government guaranteed it was seen the revival of capital itself or of what is called capital with its power of effecting exchanges, and he would support the opinion, not of Norman Angell, but of Frederic Harrison, that "capital would disappear with the destruction of credit." * Why is it that even the fear, not even the fact of "the occupation by a foreign invader of our arsenals, docks, cities and capital would be to the Empire what the bursting of the boilers would be to a Dread-

* Quoted by Norman Angell on page 24 of "The Great Illusion," from a letter to the *Times*.

nought ?"* For no other reason than that the expropriation of our property quite apart from its destruction would destroy our credit and banish our capital. It would destroy the power of our Government to give to British credit its national guarantee, and hence even if the property were left intact no British credit could be based upon it. And as British credit fell with the loss of property so would the conqueror's credit rise with its gain. If the conqueror were German, then German military and naval power would silence objectors. It would not only own the basis of credit but possess the means to protect it. Germans would own the property, whilst the British would perform for such pay as the new owners would give whatever services they required. With this view of credit, which, subject to intended but really restrictive benefits to its financiers, the Germans actually take, it is a great illusion to believe that individual Germans would be no richer for dispossessing the British of their property and becoming its owners. The German nation in extending the real basis of credit would acquire an extension of it, equivalent to exchangeable value which

* *Ibid.*

would multiply a thousandfold their rate and weight of development. Their undeveloped Colonies gave them so little basis of credit, as to be of small value for many years. The acquisition of highly developed territory, however, in France and the British Empire, would expand their credit to an extent which would greatly accelerate their growth and development, not merely in such Colonies but over every foot of ground controlled. They aim at conquering the world and Germanizing it because their system of finance, backed by organized protection, naval, military, fiscal and scientific, has shown them how to do it thoroughly and rapidly. Men engaging in the project could see the fruition of it in their own life-time. That accounts for their thoroughness, enthusiasm, and unanimity. Defeat of their arms alone could stop them. A little less boasting and a little more patience would have enabled the Kaiser to bestride the world like a Colossus, and the whole world's credit would have been German.

What is Belgian credit now, with Germany in possession of Belgian property? Assuming that the same thing happened in the British Isles, and Germany could make good her

conquest, it is idle to say that "German capital would, because of the internationalization and delicate interdependence of our credit-built finance and industry, also disappear in large part, and German credit also collapse, and the only means of restoring it would be for Germany to put an end to the chaos in Great Britain by putting an end to the condition which had produced it." *

Germany, having lost no property apart from its war munitions, would lose no credit; having gained much property it would gain much credit; the transfer of the ownership of property would transfer the credit, whilst the chaos would be put an end to by all the necessary cajolery, education, discipline and prosecution of the civilian serfs.

Credit on the grand scale is vital to trade operations of great magnitude. For this reason dubious credit is not pleasing to the traders of any country and is less pleasing to those in a beaten one. There would be a tendency accentuated by force of circumstances to regard as good the new German promise to pay backed by property once British but now German. Economy of time and effort, the

* "The Great Illusion," p. 27.

competition of rivals, military regulations, and other considerations such as there being nothing else to accept, would smooth the way to acceptance, and render the way of the transgressor a hard one. At home and abroad, emplacements of German arms would practise daily, booming with "damnable iteration" the explosive song that "German credit is good," and in a little while all would see that it was so.

Credit, in certain circumstances, is based not only upon property, but also upon the power both to defend that property when it is attacked, and to attack those who either refuse to recognize this fundamental principle or possess such desirable property as can be appropriated and made the basis of an extension of the credit of one nation at the expense of that of another. So easy is such appropriation in a conquered country, that it may mean no more than the alteration of names in mortgages and other documents.

Norman Angell could not have arrived at such battalions of wrong conclusions, but for his entire disregard of the real basis of credit. He says: "In our day the exaction of tribute

from a conquered people has become an economic impossibility." *

Except in an academic sense this is really nonsense. Great Britain exacts no tribute as tribute from her Colonies or other places which come within the category of conquered. But in another sense she exacts what is equivalent to tribute. And credit is the means by which it is done. The exaction is, of course, not peculiar to the Colonies, for it is made not only there but at home, and it is made not by the Government in either case so much as by that section of the community which is privileged not in law but in fact to utilize at their own sweet will the necessary drafts upon British credit. A Colonial loan taken up by British credit-controllers in London, at a discount and substantial commission, brings paper securities which in a roundabout way are sold for banking credit, wherewith supplies are sent to the Colony raising the loan. Thereafter annual repayments of principal and interest are made by the Colony, in the form of materials and services over a specified term. The suppliers of the goods from this country get a small profit in banking

* "The Great Illusion," p. 28.

credit. To the extent of that profit the Colonial receipts are reduced, and the Colony repays to the loan-holders the loan at par in terms of money plus the interest, without any deduction of the profits of the Colonial exporters and the British importers of the repayment goods. If the manner in which we lend British credit to the Colonies is not an insidious form of very substantial exaction, facts have given place to chimeras. Not even the import duties imposed in the Colony are paid by the fortunate operators in British credit, but merely tend to produce a process of profit-sharing between the Colonial Government and the British exporter, who is thereby driven to make a harder bargain with his workers at home, and to give some basis to a vague notion among some of these, that Colonies are merely a burden. The heavier the interest charged to the Colony and the shorter the term of repayment, the more oppressive is the exaction from Colonial workers, and the slower is rendered the development of the Colony by the surrender of the best years of Colonials to the liquidation of the debt. Every such use of British credit, except upon terms which ensure repayment over as long a period as circumstances permit,

and without interest, is a real and heavy tribute whether imposed at home or in the Colonies. But were British credit rightly used in the interest of Britons and meted out by the Government on a business-property basis either at home or abroad, the burden of repayment alone, *i.e.* without interest, would fall lightly upon all shoulders, and the cost of that defence of British credit on the scale of armaments necessary to warn off all future attack would be gratefully and enthusiastically borne with ease by the broad shoulders of the whole Empire. Why *property* is qualified by the word *business* as the basis of the credit will be explained later.

Norman Angell states also that "The exaction of a large indemnity" has become "so costly directly and indirectly as to be an extremely disadvantageous financial operation."* Well, unless the real business property basis of national credit is acknowledged and the nation recognized as its real owners, the dictation of an indemnity may cause many sections of the people who exact the indemnity to suffer seriously. That all would suffer is untrue, that the financial community would suffer is absurd. The basis of British credit, the business

* "The Great Illusion," p. 28.

property here, will not have been reduced, and the financial community will still have the monopoly of its use. Whatever business property or charges upon business property may be acquired by Britain, will be a further basis of British credit of which the financial community will have the further monopoly. If certain imports on a large scale are taken in part payment, the traders and their dependents here will suffer seriously by their skill and calling having become practically superfluous. But if the payment is exacted in the form of certain other imports at bedrock value, raw materials to which the utility-value has to be added by process after process at home, *i.e.* if the imports are merely the sticks gathered for lighting the fires of prosperity at home, creating competition for labour, consequent high wages, and yet leaving production costs low enough to meet competitive prices, the exaction of an indemnity might produce prosperity for all for generations to come.

But to correspond with the great supplies there must be a corresponding demand. That demand, to arise at all and to be of benefit to the employers and the employed, can only be

created *by and in* conditions of credit which have set free the shackles of so-called unrealizable assets. It is not true that they are unrealizable, because to all intents and purposes they are realizable, not, it is admitted, by their real owners, value-givers and operators, but by those who have charges upon them turned into negotiable banking credit which in any emergency the Government must make good.

There is no other way of creating these conditions than by making the first charges of national credit on business properties free to their operating owners under conditions of meeting this credit by easy instalments year by year.

This indemnity question is so vital to national interests, that one hopes a committee is somewhere sitting in secret for the preparation of a report upon the solution of it in any reasonable variety of circumstances at the psychological moment. It cannot be settled well if settled quickly on hurried conclusions made in the midst of negotiations for peace.

Norman Angell states: "The wealth, prosperity and well-being of a nation depend in no way upon its political power; otherwise we

should find the commercial prosperity and social well-being of the smaller nations, which exercise no political power, manifestly below that of the great nations which control Europe, whereas this is not the case. The populations of States like Switzerland, Holland, Belgium, Denmark, Sweden, are in every way as prosperous as the citizens of States like Germany, Russia, Austria and France. The wealth *per capita* of the small nations is in many cases in excess of that of the great nations. Not only the question of the security of small States, which, it might be urged, is due to treaties of neutrality, is here involved, but the question of whether political power can be turned in a positive sense to economic advantage." *

But it is futile in these days of modern credit to talk of the question of whether political power can be turned in a positive sense to economic advantage when the converse is the case and economic power is turned in a positive sense into political advantage. Under the international credit system in vogue to-day, whenever an emergency arises, economic power in the hands of those who have pledged the national credit absolutely directs

* "The Great Illusion," p. 28.

the politics of a country. Political power which when independent may be helpful, is plastic in the hands of those with economic power when a Government in a crisis, failing to recognize the proper basis of that economic power, bows down before it. Small States are comparatively free from the direct exercise of economic power, or in other words credit monopoly, because they are too small for bases of credit on an extensive scale. The vast proportion of the world's trade financed by British credit could not, for instance, be financed on the credit of a small State like Belgium. No more cogent proof that credit is based upon property and the power to defend it could be offered.

However, the world's financial community on the existing credit system practically ignores such a State; it consequently exacts little or no tribute therefrom, and may therefore leave the poorer classes less poor, and the richer classes less rich, than where its exactions are felt in larger countries. Here its large-scale credit operations based upon the property of the larger and wealthier community whose operators must pay the tribute before accumulations of their own can begin, before they can

save, the poor become more numerous, the property-owners become impecunious and the few become prodigiously rich.

Political power is largely the instrument through which the operators in the national credit must work, and do work, to the best of their ability, and the protection of their interests, to prevent the appropriation of the property of the country upon which the credit in which they operate is based. As John A. Hobson rightly says: "The early beginnings of this cross-ownership among different nations are, indeed, often sources of national quarrels and even of wars, when the owners of foreign investments which are in peril of repudiation, or are otherwise injured by 'bad government,' are possessed of sufficient political influence in their own nation to utilize the public purse and the public force, in order to safeguard or improve their stakes in foreign parts."*

But seeing that such action, though prompted by individual interests, tends to preserve the integrity of national credit, it performs a valuable public service. National credit is of such utility to the nation, that it is worthy of protection even by those who have not hitherto

* "The Evolution of Modern Capitalism," chap. x.

clamoured for participation in the "ground floor" benefits of it.

Were the operators in this credit as numerous as they ought to be there would be no lack of recruits or enthusiasm or preparedness, for more would understand the real need beyond the feeling of patriotism for fighting and winning, fighting for the use of their own credit not for its use for the special benefit of an unduly small section. Even in a small State like Belgium, that application of its credit which gave the Belgian an advantage over the foreigner in investing in the country, would have had as a consequence the power and the will of the people to render its comparatively small frontiers impregnable. It would have discouraged investments in private property which in a small State by inhabitants of a large one may have their own peculiar political influence upon the State. The Belgian would not have desired or had need to sell or pledge to a foreigner a property upon which was based a valuable citizenship not transferable to a foreigner except under conditions which would have largely frustrated ulterior motives.

"The wealth, prosperity and well-being of a nation depend in no way upon its political

power" *—well, look at Belgium now! Yet no such débâcle would have come to it if the political power to regulate first charges upon its property in the interests of its own people had been in operation.

Again it is stated: "No other nation could gain any advantage by the conquest of the British Colonies, and Great Britain could not suffer material damage by their loss, however much such loss would be regretted on sentimental grounds, and as rendering less easy a certain useful social co-operation between kindred peoples." †

Such a view is due to an entire misapprehension of the basis of that immense volume of British credit, which is ever afloat in financing the trade of the world. To cut away the Colonies would be to cut away part of its base. The fact that the credit so based is used not by the bulk of Canadian, Australian, South African and other business property operators, but that it is hired out to them when they are entitled to some of it free, does not alter the fact but merely the incidence of the fact. The loss, therefore, would be as real as the loss

* "The Great Illusion," p. 28.
† *Ibid.* p. 29.

of a watch which one is able, as convenience dictates, to take to a pawnbroker and pledge in exchange for legal tender.

Again, in reference to Great Britain and her Colonies, "They are, in fact, independent nations in alliance with the Mother Country, to whom they are no source of tribute or economic profit (except as foreign nations are a source of profit), their economic relations being settled, not by the Mother Country, but by the Colonies." *

It is to be hoped that the economic relations between the Colonies and the Mother Country will not leave it possible to write of settlement of them in the future except by both. With the benefits of British credit allocated amongst all, this would be done, and the real benefits of a World Empire rapidly attained by the Imperial Many. But to disprove that our present economic relations with the Colonials are no source of tribute or economic profit except as foreign nations are a source of profit, one has only to consider what Germany thinks of such relations and incidentally of property. Here it is:

"The fact that they (England and France)

* "The Great Illusion," p. 29.

have invested in every quarter of the globe, intending thereby to protect themselves from too considerable loss in case war should break out or countries become bankrupt, has actually forced them to part with the reality of their wealth and to substitute for it unreality. They have placed the tangible results of their investment the width of the globe distant from their shores, and therefore from their armies, and they have taken in exchange a promise to pay, which they do not possess the force to exact, and whose whole value depends upon the willingness of the debtors to consider it binding and to liquidate the debt of their own free will when it becomes due. They have invested their money everywhere except at home, and have therefore exposed themselves to its loss, because their ownership of these debts and instruments depends on the continuance of the present notions of commercial morality. This is not investment. This is speculation. The reality — the railways, factories, mines—which represents the capital they have invested, belongs literally to the borrower. He has the only tangible thing in existence in the world, the only thing which possibly can exist in the world, as the equiva-

lent of that value. Whatever is written on paper is paper, and is not to be made into factories or railways or tangible assets of any kind, by any process of jugglery such as the mediæval bishop performed when he baptized the roast and called it carp. Things *are* and writing on paper does not change the thing or its position. The real wealth of England, the surplus of which she is so proud, comes not from her soil nor from her own factories—in other words, from those things which no one can take away from her except by force of arms, and which she necessarily protects as long as she continues her national existence *—but from her income from the accumulations of

* The floating credit utilized to-day in excess of that based on first consignments of goods is based upon property existing to-day and not upon accumulations of the past or the income therefrom. That part of its basis has passed away into oblivion in destruction of materials in production, the deterioration of industrial plants, the exhaustion of soils, and the destruction of forests. Productive equipment in every community is wearing out and must be replaced. And it is worthy of note here that maintenance and replacement are not a charge upon the utilizers of the credit based upon such property but upon the operators of the property, and is a further tax, in addition to interest, upon the life and work of the exchangeable-value producers.

the past with whose actuality she has parted, and from which she has received for decades the payments represented by the excess of her imports over her exports. The world has paid her tribute, but the world need continue to pay that tribute only so long as it wishes. The moment the borrowers refuse longer to recognize the validity of her claims upon their revenues and incomes, and begin to realize that they hold, with a clutch which she cannot loosen, the actual substance of wealth, then they will begin to see that her wealth is not real, but depends purely upon their willingness to continue to pay her revenue, which they may stop paying her at any moment without suffering any consequences. To be sure, such notions as these presume the violation of every notion of commercial morality and expediency at present existing in the world, but, as the Germans say, *if they were violated*, what could England and France possibly do to avert destruction? It is true, they admit, that such a wholesale repudiation of debts would undoubtedly make it difficult for nations to borrow from each other for some time to come, but, they retort, if such a repudiation took place, the debtor nations would

not need to borrow money for generations to come." *

That the Germans appreciate real property is shown here. Had the author examined the question in the light of their views upon credit he would probably have found, as is indicated elsewhere, that they appreciate it as a basis of credit which gives them the property and "the other fellow" the paper, which as an effect of force of arms they would deal with in a more subtle way than by mere repudiation. They would advise our Colonies to tear up contracts as they tore up the Belgian Treaty. But "Codlin's the friend, not Short" requires more simple-minded people than Colonials to influence and it does credit to their honour and loyalty that after such propaganda they are found facing the Germans behind our guns when the need arises.

In saying that "our Colonies are no source of tribute or economic profit (except as foreign nations are a source of profit)," Norman Angell was clearly wrong.

But as we know that much of the indebtedness upon which the Colonies pay interest and redemption charges is not due to accumula-

* "Pan-Germanism," chap. vii, pp. 90–92.

tions, but to the use of such accumulations of which their own possessions form a part, as a basis of credit, has the time not arrived when the citizens both at home and in the Colonies should be given some of the financial privileges which, with such Germanic poison dropped incessantly into their ears, they might eventually be induced to take or appropriate? A common bond of British credit from the use of which all would be deriving tangible benefits at small cost, and which it would be everybody's personal interest to protect, would add much vigour to the circulation of Imperialism and the promotion of its overwhelming defence.

The specious argument that it was an optical illusion to regard the annexation of Alsace-Lorraine by Germany as beneficial to that country is rendered fallacious by the extension of German credit which the national possession of this territory effected. This extended credit accrued to Germany whether the property remained in the hands of the French or was expropriated in the interests of individual Germans. It is nonsense to argue that neither the German nation nor individual Germans were any the richer for the conquest of these

provinces. The German financial community became much the richer in the credit they could trade in at a profit, and individual Germans benefited by the greater volume of credit on offer to them for the extension of their business operations. The question of loss or gain on balance of revenue and expenditure in the government of the area is a comparatively small matter. The French have not placed wreaths on the memorial of the lost provinces in the Place de la Concorde in Paris for forty years in order to perpetuate the memory of a merely sentimental bereavement. That bereavement was both sentimental and economic. What would become of French credit if the whole of France were similarly appropriated? And if the German flag were floating over the British Empire, what would become of British credit? It would be appropriated as German credit, operated by German financiers who would make the exactions for its use now made by those financiers of various origins whom our Government in practice, if not in theory, and in fact if not in intention, constitute its monopolists.

As gold is really the basis of legal tender, not of banking credit, and plays in banking

merely the part of legal tender, or comparatively small change; and as the basis of legitimate banking credit consists of securities readily realizable in a general crisis, held either as collateral security for loans or as investments, so public property of a productive character is the basis of national credit. Outside the boundaries of British credit, as well as inside, gold has the special virtue, through banking machinery, of giving a greater command of the current legal tender than can be given by the bullion itself, regarded as property, rather than coined money, and it does this to the extent by which the excess of nominal value in legal tender paper-money based upon it exceeds its exchangeable value in terms of money. Where this excess is too high, or where the gold reserve is used as the basis of banking-credit as well as of legal tender, any excess is in fact, whatever it may be in nomenclature, an appropriation of national credit which has its legitimate basis in the productive property of the nation. Any securities, therefore, relied upon for solvency by the banks which are not realizable quickly under any conditions whatever, constitute a measure of the appropriation of the use of national credit. And the like

applies to credit given or lent without security beyond a promise to pay, as well as to the credit based upon gold, and cash generally, beyond their nominal value.

In a crisis, the amount of gold and the realizable value in legal tender (compared with the mass of almost unrealizable securities) on which credit is popularly believed to be based, bears so small a ratio to the thousands of millions of pounds of nominal value in outstanding credit that it is ludicrous to regard gold and securities as its base, and not recognize that business employment-giving property and other property convertible into such, *i.e.* the major portion of the property of the nation, are and must be its real basis. Only by those means would it be possible for such a mass of credit to be met with real value; and the very essence of sound credit is that it can ultimately be so met, exchangeable value in intrinsic utility being given up for the paper of which the property, measured in terms of money, is the equivalent.

In the redemption of national credit the Government would be compelled to appropriate property, dislodge the owner, and instal in his stead some person to whom its

equivalent in national credit had become due. All the gold in the world, even if it were in the possession of the Government, would go but a short step of the way in such a national emergency. Only whilst the Government had the power to say "accept this promise to pay," could this form of liquidation be avoided. If it had ceased to have such power, the country would have passed into the hands of a conqueror who would please himself as to whether he would have the credit met for his own benefit or that of the powerful financial interests who had used it. But whether for one or the other, he would certainly meet it according to circumstances by appropriation of the property itself or claims upon specific properties with soldiers as the men in possession at the charge of the conquered owners.

Although a valuation department of Form IV fame is in existence, no estimates of the value of British property as a basis of credit have ever been made. Estimates of property value in a general way have been made in the United States, giving the value of property there as £17,700,000,000 (or seventeen thousand seven hundred million pounds) in the

year 1900, and four years later, in 1904, at £21,400,000,000 (or twenty-one thousand four hundred million pounds), showing an average increase of about £1,000,000,000 (one thousand million pounds) per annum.*

Estimated at somewhat lower prices, the value of property in a general way in the United Kingdom near that time was supposed to be about £16,000,000,000 (sixteen thousand million pounds). Even allowing for a comparison favourable to this country on the ground of the scale of valuation prices, which is really an unreasonable thing to do, seeing that the average difference of prices does not warrant it, and assuming that the value totals were really equal, the progress made since by 109,000,000 of a trade-protected people, against that made by 46,000,000 of a trade-unprotected people, except as to protection of its commerce by its navy (a protection that a great combination of other navies might nullify), must have turned a comparison of present totals considerably in favour of the United States. Hence, the United States is beyond question the richest country in the world and the

* "Wealth, Debt and Taxation," published by the United States Census Bureau.

basis of its credit, credit which its new banking system will enable it to use on a world-wide scale, is greater than that of any other single country. Simultaneously with the world-wide use of its credit, America is bound to build an enormous navy, in order to give to it and to the commerce it will promote the necessary protection. The expected increase of commerce will surely follow, because with the greater credit facilities given it will become easier for our own Colonists to trade with America, whatever the scale of prices, than with the United Kingdom.

There is a tide in the affairs of all men and Empires, too, which taken at the flood leads on to fortune. Beyond question, the rapid development of the British Empire with its twelve millions of square miles in area, and its four hundred and forty millions of people, would give a basis to British credit which, duly protected at a small cost *per capita*, would give it currency over the whole world wherever means of authenticating it were placed. The war has taught many, as a few previously understood, what credit is, *i.e.* the real medium of exchange. The extension of it would multiply correspondingly the volume

and rapidity and variety of the transactions which spell development. At home there are countless opportunities for development. Throughout the British Dominions such opportunities are almost without limit. We alone, of all the nations, have the foothold for such development, beyond that of even a combination of great Powers. A turn of the crank, in the form of a little Bill through Parliament, would set the motor going. Will our Government rise to the occasion, and with the necessary encouragement of regulated enterprise obtain that indisputable world-power in the interests of our safety and independence, which one great nation has so far failed to obtain with blood and iron and "frightfulness," but which another nation may yet obtain by means of dollar bills? Or shall we lie rocked in the cradle of the deep, asleep, or in the midst of danger bury our head like the ostrich in the sand and refuse to believe what, having blinded ourselves, we cannot see? No greater significance than this can be given to King George's exhortation "Wake up, England," and its implied injunction, "When awake, do not use unseeing eyes—The eyes are the windows of the brain."

CHAPTER VII

THE PEOPLE'S CREDIT

"*Render unto Cæsar the things that are Cæsar's*"

BRITISH credit, being based upon British property, belongs, therefore, to the British people, and to them it should consequently be given for their own use; to individuals to the extent to which they can meet it, but to particular individuals through whom may be benefited those of the people who have no tangible property but merely capability of service with which to answer for their share in the ownership of it.

A margin of safety against such depreciation as cannot be avoided in any practicable way must be maintained. The duty of redemption, vital to sound credit, must be imposed upon those who utilize it. The mode of redemption should be by annual instalments and extend over as long a period of years as the property is capable of being maintained.

A period should be fixed capable of extension under prescribed conditions. The operation of the credit should take the form of cheque currency by conversion into banking credit, with the Government as the support of the banks through the medium of the Bank of England. It must *ever* be so in a crisis, and should *always* be so that crises may never occur. The Treasury should have powers and the Bank of England privileges demanded by the new situation.

This proposal eschews many details, elucidation of which would become wearisome to the reader. But a few comments upon various parts of it may help to smooth the way to its acceptance.

The proposal is :

(1) *That all property used for the purpose of helping to provide a living for employees who exchange their services and time for wages shall be recognized as the real basis of national credit.*

The property is limited to productive property in the sense that by its direct instrumentality its workers produce with mental and manual labour earnings whereby the employing and the employed classes may live, maintain

their dependents and provide for their future either by savings or accumulation or by extension of business operations. There is an economic reason for this limitation of the property to that which is productive, to include a railway and exclude a Government office, to include a smithy and exclude a mansion. The railway and the smithy produce earnings for their maintenance. The Government office and the mansion are not maintained out of their own productiveness but out of the productiveness of other properties, such as the railway, the market-garden, the smithy, etc. The Post Office cannot be termed a Government office in the excluded sense, seeing that it is or ought to be maintained by its own earnings.

Without recognition of this distinction economic justice cannot be done to the workers of the Empire who own no productive property and who are dependent upon mental and physical skill and labour, time, the will of an employer, the whim of a financier, and varying degrees of health and strength for their "place in the sun." That these people have a well-founded claim for consideration on national and Imperial grounds none can deny. Without

them there would be neither nation nor Empire. Their economic claim may be shown in many ways. One of them is the operation of the principle of the division of labour which makes all modern industry and is the basis of all organization. Adam Smith speaks of "The great increase in the quantity of work which, in consequence of the division of labour, the same number of people are capable of performing, as owing to three different circumstances: first, to the increase of dexterity in every particular workman; secondly, to the saving of time which is commonly lost in passing from one species of work to another; and, lastly, to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many."* None can deny it. Division of labour aided by machinery increases production and tends to reduce prices. This increases the purchasing power of money or credit, and benefits those in possession of both. But it reduces the price of labour also: first, by reducing the demand for it, fewer labourers being needed; and next, by increasing amongst labourers competition for remaining jobs. It

* "The Wealth of Nations," Bk. I, chap. i.

reduces the money and credit in possession of the non-moneyed classes, thereby depriving them of the benefit of the increased purchasing power of money and credit. To restrict the use and improvement of machinery all admit would be folly and an unforgivable sin in the face of world-wide competition. But the elbowing out of the bounds of sustenance of moneyless workers cannot go on indefinitely. Out of work, out of home, and out of country is a progress to national decadence. The alternative is the extension of means of employment in order to create a great demand for the services of these people, a demand for services of all kinds, and thereby produce by competition for services such a demand as will constantly tend to exceed the supply. Good work at good wages is inevitable in such conditions. And these conditions will follow upon the means of extension of old, and multiplication of new, business concerns which will be practicable to employers if national or Imperial credit is allocated to them on the terms proposed. Competition can be relied upon in such conditions to keep down prices and maintain the purchasing power of money. On the one hand, the wings of monopoly abuse

would be clipped by the credit facilities open to its victims. On the other hand, trades in which any tendency to over-competition appeared could be brought under the category of "licensed" and thereby limited in a manner inculcated already into the public mind by the operation of the licensing laws. The necessity of the intervention of the State on these grounds would, however, prove that a boom in trade of great magnitude had arisen.

A man who from making 20 pins in a day is enabled to make 4800 without any increase in wages has clearly made a sacrifice in the interest of the State. Not of himself, for he receives his wages, and their purchasing power has increased at least in respect of pins. But he has sacrificed his fellow-workers who are not now required, and their purchasing power, even though pins are so much cheaper, is *nil*. The pins are cheaper because one man only instead of a large number has to be paid for making them. The men dispensed with are the sacrifice. They are supposed to be able to find other employment. But except in abnormal times, when the whole nation is required to make war munitions, the same

process is going on in every trade with the march of invention and labour-saving machinery. Trade Union leaders strive to remedy the evil by rules for limited work in time and kind, and applying the principle of "one man, one job," a process by which organized labour disorganizes industry. A limitation of the work of one man in order to leave work for another is more benevolent than intelligent. It wastes the time, squanders the youth and energy, and deadens the ambition of both. The idea of "one man, one job" is in many cases crass stupidity. Real organization means "one man, one job" when there is enough of the job to occupy the man's whole time. When there is not and he stands aside awaiting his turn and merely watching others work he is conducing to an early death of his employer's business and his own. Industrial topsy-turvydom is at its height when on the one hand one man takes a week to do a real day's work, whilst another does a week's work of twenty men in a day. In both cases the employer probably suffers. In the former, he is worried into bankruptcy by his workers; and in the latter to the verge of it by those who have financed his up-to-date works upon

terms which call for high interest, a share of the profits and quick redemption of capital. The real remedy for the evil, which would eradicate the abuses which give rise to vain trade-union rules, which would help the small employer and take the big one from under the thumb of the financier, is the free use of national and Imperial credit. This would cause industrial progress in volume, variety and rapidity to keep pace with the progress of invention. Men dislodged from one calling by a new invention would be eagerly welcomed in another, for the element of time in awaiting development of fixed resources would be as completely annihilated as it is by electricity in communication or steam in transport.

The defects of division of labour are to a great extent overshadowed by the immense increase which it gives to the purchasing powers of those in command of the world's money and credit, or, in other words, in command of the world's medium of exchange. The workers of the world, employers and employed, are not as a body in this position. But they could be given a large share in it by rendering their fixed tools, their works or business concerns to the extent of half their

value convertible into national credit. They would be in the position of the exceptional employer whose command of capital, *i.e.* banking credit, increases with his business. Take the meat industries of Chicago. Division of labour or organization of industry—the two phrases are practically identical in this sense—has been carried to perfection. "Taking a crew of 230 butchers, helpers and labourers handling 1050 cattle a day under the union regulations of output, the time required for each bullock from the pen to the cooler, the hide cellar, and all the other departments to which the animal is distributed, is equivalent to 131 minutes for one man. But this is made up of 6·4 for the 50 cent man (2*s.* 1*d.* per hour), 1¼ minutes for the 45 cent man (1*s.* 10½*d.* per hour), and so on; and the average wage per hour of the gang-men would not exceed 21 cents (10½*d.*), making the entire cost about 46 cents (1*s.* 11*d.*) per bullock." *

Now, when the share of labour out of a whole bullock is only 1*s.* 11*d.*, and the price of meat, even American meat, is what it is, at any time, however it may vary, the labourer

* "Economics of Business," page 94, issued by the Alexander Hamilton Institute, New York.

benefits little by any reduction effected in the price of meat, whilst the employer has margin enough to get out of the profit-sales a very wide command of banking credit without having to pay interest for it.

The cheapening of the labour operates in this way. "If the company makes a few of these particular jobs desirable to the men and attaches them to its service, it can become independent of the hundreds who work at the jobs where they can do but little damage; and their low wage brings down the average to 21 cents (10½*d.*), where if all were all-round butchers the average would be 35 cents." *

But that applies only to the labour used. A few men are paid extraordinarily well and kept in steady work; hundreds of men are taken on at low wages as required, and may or may not have regular work. But the perfection of the modes of increasing production and decreasing costs enables the great business, in course of time, to be conducted with fewer hands than when it was not so great, and numbers are therefore altogether deprived of the chance to sell their labour,

* "Economics of Business," page 94, issued by the Alexander Hamilton Institute, New York.

the only thing they have to sell, and which they must sell before they can obtain the wherewithal to live. If this difficulty were not remedied much misery would result. But the employer with command of banking credit is in a position to remedy it. His vast meat business yields waste products on a scale worthy of use in other business concerns, and the writing of a few cheques brings vast works and expensive equipment into being which make room for many more highly paid, as well as lowly paid, workers according to the qualifications of the men. "The hoofs of the animals are made into glue in the largest glue factory in the world. A large soap factory utilizes a portion of the oils and fats. A curled hair factory; a factory for the manufacture of brush-handles, paper-cutters, and bone articles; a factory for the manufacture of articles of horn, such as combs, buttons, etc.; a fertilizer factory which works up bones, offal, and blood" *—all result from the command of banking credit and the power it gives for the utilization of labour dislodged casually or permanently by the advances made in methods

* "Economics of Business," page 103, issued by the Alexander Hamilton Institute, New York.

of production. Hence the effect of the command of banking credit by this big meat concern in America has been great enough to counteract the evil done to men whose only assets are mental and manual labour. So many skilled and well-paid posts have been opened up that "the effect of machinery has been to increase so considerably the earnings of the working class that it is possible for them to obtain a thorough common school education before entering upon their work." *

The same effect has not been created in this country because the command of banking credit by employers has been too limited or too costly. And the Government, instead of applying the real remedy, provides education free, unemployment insurance, old age pensions, poor houses, and so forth, all of which are greater evidences of heart than of head.

In the interest of the whole of the working classes, both masters and men, who constitute the majority of a nation, or an Empire, and are therefore in the main the owners of the national and Imperial credit, the property in which they are jointly interested is the property

* "Economics of Business," page 47, issued by the Alexander Hamilton Institute, New York.

upon which the individualized and free use of national and Imperial credit should be based. This property consists, generally, of the following:

(*a*) Land in productive use and yielding the wages of labour of every kind involved in its operation.

(*b*) Buildings, such as factories or workshops, which are "going concerns."

(*c*) Means of transport by water and land, including canals and railways and transport vehicles which are utilized and not either disused or obsolete.

(*d*) Tools and machines, agricultural and industrial, in regular productive use and used exclusively on the land or in the buildings on which the credit proposed to be granted is based.

(*e*) The books and scientific apparatus of the well-qualified scientist, as the physicist, the chemist, etc., employed either experimentally or productively in self-supporting institutions.

(*f*) Theatres and all buildings in regular use for the purpose of rendering personal service which cannot be rendered without such appliances and which are self-supporting.

Sureties may be required for movable property.

(2) *That title-deeds shall be accepted by banks as equivalent to deposits of banking credit in terms of money.*

Such deeds are at present acceptable as collateral security for loans, although they are regarded as undesirable, the property not being readily realizable in case of emergency, or when the bank wishes to have the loan repaid for any reason whatever. It is banking credit in terms of money of which loans so made would consist.

The objection may be urged by the banks that under present conditions they charge 5 per cent. interest on such loans. But the loss of these earnings will not be serious, for the banks have always opposed the principle of loans on such security, and have kept them at a minimum. A vast addition to their deposit accounts in the form of real security instead of other banking credit in the form of cheques, and upon which they receive $\frac{1}{8}$ per cent. as banking charges, whilst the nation regards these deposits as loans from the bank to the depositors of its banking credit and guarantees

the borrowers, will be no negligible source of revenue.

(3) *That these terms of money shall be equivalent to half the value as fixed capital of the property so treated.*

This gives the State and the bank an actual margin of real value, which it is the province of the Government by means of financial, civil, naval and military operations to maintain in any set of circumstances which may assemble to affect it.

(4) *That no interest shall be charged on the banking credit so drawn upon.*

The absence of interest is no foolish chimera to be derided as soon as mentioned. Money lending is the grandfather of modern capitalism as credit lending is its father. The Jews are the founders of modern capitalism, and the view has been expressed by a first-rate authority that "if London is the chief financial centre of the world, it owes this position in large measure to the Jews." *

The Jewish genius for finance not only dominates, but has won the admiration of the financial world. Yet amongst the financial

* "The Jews and Modern Capitalism," page 91.

rules of the race, even in Biblical days, a Jew was enjoined as part of his religion, as follows (Deut. xxiii. 20): "Unto a foreigner thou mayest lend upon usury; but unto thy brother thou shalt not lend upon usury."

"It need hardly be added that 'usury' with the translators was nothing more or less than our 'interest.'" *

The principle is as old as the hills, and its success has well served its originators whatever their practice now.

The Government of the State has control of the general credit of the State in trust for all its citizens; and also the power to lend portions of it, free of interest, to such of its citizens as can show title to the particular loans. The nation as a whole in lending to part of the nation, or the whole Empire in lending to part of the Empire, or the whole family in lending to part of the family, should remember the Jewish tenet, "unto thy brother thou shalt not lend upon usury (interest)." Apart from all considerations of justice and mercy, which are its main supports, the principle ought to be remembered and acted upon because it will pay.

* "The Jews and Modern Capitalism," page 242.

(5) *That the annual redemption instalments shall cover a period of thirty years.*

The essential of any credit system is that sooner or later the credit has to be met, and the certainty of its being so is to be the more assured, as the wastage of time and use depreciates the security in a natural way despite the ordinary maintenance by repairs and renewals. Thirty years is a period long enough to render annual instalments light and short enough to evade fundamental economic changes. The instalments would be paid by the automatic reduction of the credit standing in the customer's name in the books of the bank. A borrower of this credit to the amount of £30,000 would at the end of a year find his account so debited, and if there were not £1000 standing to his credit would be called upon to pay that sum under penalty of having his property appropriated by the Government and sold to a reliable borrower for £30,000, of which £1000 would be payable in the buyer's own banking credit, and £29,000 allowed on the property itself in the form of the banking credit of which the property is still the basis.

In case of default in the redemption of public

credit the bank will act as it would against an ordinary defaulter except that it must act as the agent of the Treasury on specific authority in every instance. Otherwise the banks would take the place of the Government in a situation of great influence.

There would be little difficulty in getting such first charges taken up or in sales of property or equities so privileged. Default is likely to arise only from illness, neglect or incompetence, not from lack of opportunity to succeed. There is an economic limit to over-competition when the people are fully engaged in sufficiently diversified ways, and if any particular industry nevertheless exhibits the tendency to over-competition, the necessity of a licence to engage in it would have all the restrictive effect desirable. But the function of licensing should not be exercised so as to stifle improvement and produce an anæmic monopoly in any department of industry. A local licensing body presided over by a paid chairman with a comprehensive knowledge of business principles should be appointed when and where necessary, and applicants for licences should have a right of appeal from it. Were the need for this innovation considerable the

lawyer-politician would soon derive from its practice that ample business knowledge for the lack of which he is sometimes derided.

(6) *That valuation courts shall sit for the valuation of properties for this purpose.*

(7) *That application for valuation shall be made to these courts by property owners who shall pay a stamp duty of* 10*s. per cent. on the amount of the value declared, and receive a certificate stamped accordingly.*

(8) *That the owners may take their title-deeds before such courts to be stamped as a legal deposit for banking credit to an amount equal to* 50 *per cent. of that named in the certificate. This stamp duty to be* 2*s.* 6*d. per cent.*

These courts, having jurisdiction over the whole of the Empire where property of the character described exists, should be located in places reasonably accessible to the property owners. Barristers, solicitors and surveyors, as representatives, or applicants (the property owners) in person should be entitled to apply for a valuation of their property, producing such evidence of value as they can. The value decided should be the full value. A certificate should be issued by the court briefly

identifying the property, the title thereto and the value thereof, stamped at the cost of the applicant at the rate of 10*s.* per £100 or part thereof. The deeds of the properties should be further stamped, also at the cost of the applicant, at the rate of 2*s.* 6*d.* per £100 or part thereof, certifying its deposit value for banking credit to the amount of half the sum stated on the certificate of full value, decreasing by equal annual instalments over a period of thirty years from the date of certificate of full value.

No branch of the judiciary would answer the purposes of these courts so well as the County Courts presided over by the County Court Judge, with an assessor possessed of local knowledge. As to the County Courts, much of their present occupation would be gone in the greater diffusion of prosperity. Their utility in enabling debtors to gain time and creditors to disgrace those who would pay if they could would thus change into a happier function.

No property owner other than a British subject should be entitled to the services of the Valuation Courts. And every naturalized British subject should not only have renounced

his former nationality and given proof to the authority over aliens that the renunciation was *bona fide*, but should also have a good knowledge of the English language.

There should be a right of appeal from the decisions of these courts to the higher tribunals in respect of any valuations exceeding £1000. But the whole procedure should be governed by appropriate rules issued by the Treasury from time to time and should prescribe how the Government is to be represented on the hearing of applications.

(9) *That revaluations may be made from time to time in order to maintain the credit for a period not exceeding thirty years.*

For instance, in respect of a property charged in 1916, on a thirty years' basis, in 1921 five of the thirty years will have expired, and five redemption instalments will have been paid. The owner may then have need for a sum equal to these five instalments or part of them, and sufficient reason to believe that his property is still of such value as will entitle him to the same amount of credit, or only a little less in respect of a full period of thirty years. Such owner should be free to apply for

a revaluation, and on obtaining a new certificate and paying the stamp duties to procure the alteration of the endorsement on his deeds and his banking arrangements accordingly. Every user of national or imperial credit should keep his banking account where he obtains his credit, so that no bank need part with the deeds for restamping in such a case as this. No new certificate should be issued without the return and cancellation of the old one. The certificate in every case would be held by the owner so that it might, if necessary, be made the basis of a second mortgage and handed to this mortgagee as his security. But it should bear a statement that any such charge must rank after 50 per cent. of the value certified.

(10) *That the whole of the banks recognized by law shall be required to open a public credit department and permitted to charge a commission of 2s. 6d. per cent. per annum on the outstanding credit in order to cover the costs of operating the accounts.*

(11) *That the deeds shall be held in trust for the Government, which shall assume responsibility for the credit advanced upon them.*

(12) *That the Bank of England shall establish branches either new or in affiliation with other approved banks in convenient centres throughout the Empire which shall discount the bills of all banks operating in their spheres of influence, and of one another, the rate of discount being decided from time to time by the Bank of England and not necessarily the same for different places.*

(13) *That all other banks shall keep an account with the Bank of England in London, or its most convenient branch.*

(14) *That the Bank of England shall become a Government institution without alteration of its constitution.*

(15) *That the Treasury shall appoint an Advisory Board, representative of all parts of the Empire, to confer with the Bank of England authorities from time to time, this Board to report to the Treasury, but to have no power over the banking authorities.*

The capital of each of the new imperial banks or so-called branches of the Bank of England should be provided as to half by the Government, one-quarter by the other banks in the various areas, and one-quarter by the public, the Government taking up any

residue not subscribed after the offer to the public.*

Where lawful banks have established themselves, the new banks created for the purposes of the new system should not transact ordinary banking business. They should accept deposits from three sources only (*a*) The British or Colonial Governments; (*b*) the banks in their venue authorized to establish a public credit department; and (*c*) other banks of their own class, for exchange purposes only. The banks under (*b*) should be required by law to keep a reserve in the new imperial branch within its sphere of operations against the rediscounting of its bills. Where necessary, the new imperial branches should act as clearing houses.

The main function of these new banks should be that which has gained for the new American federal reserve banking system commendation from its friends and foes alike. The Act states: "That upon the endorsement of any member bank, any federal reserve bank may discount notes and bills of exchange issued or

* The Government could provide a sinking fund out of the profits on this investment against contingent liabilities of any kind.

drawn for agricultural, industrial or commercial purposes, not including notes or bills issued or drawn for the purpose of trading in stocks, bonds or other securities except United States bonds. Such paper is not to run more than ninety days, except agricultural or cattle paper, which may have a maturity of not exceeding six months. Acceptances of member banks which are based upon the exportation or importation of goods, and which mature in not more than three months, and which have been endorsed by at least one other member bank, may be discounted in the same fashion. The amount so discounted must not at any time exceed one-half of the paid-up capital and surplus of the bank for which the rediscounts are made. Likewise the aggregate of all notes and bills of exchange, made or endorsed by one person or firm rediscounted for any one bank, shall at no time exceed 10 per cent. of the unimpaired capital and surplus for which the rediscounts are made; but this restriction is not to apply to the discount of bills of exchange drawn in good faith against actually existing values." *

* Pamphlet: "Meeting Currency Requirements." Alexander Hamilton Institute.

Truly have our American cousins arrived at something like a tangible appreciation of the real place of credit in the world of exchange, whether home or foreign, and of means to keep it moving.

Of France another pamphlet says:* "The business of the country, it seems, is done entirely upon credit; the Government bank has increased its holdings of gold until they are nearly one billion† dollars (£200,000,000); but it is evidently the policy of the bank to hold the gold of the country as a reserve and to compel the transaction of business with credit instruments."

Reverting to America, the same pamphlet says: "Nevertheless, industry and trade cannot be resumed on the old scale unless money (*i.e.* legal tender paper and small change) can be got for the payment of wages and for the purchase of raw materials. I do not believe that this necessary supply of capital can quickly be obtained unless private

* "The Probable Condition of the American Money Market after the War." Alexander Hamilton Institute.

† An American billion is 1,000,000,000. An English billion is 1,000,000,000,000.

or industrial credit is reinforced by Government or national credit."

Also: "If, at the beginning of last August, our federal reserve banking system had been in full operation, with power to mobilize our enormous gold reserve" (that is power to place American gold in parts of the world including America, where it could command through banking machinery four or five times its nominal value in local banking credit), "there would have been more than an even chance that New York City would become the world's financial centre, and that the American dollar would have elbowed the British sovereign out of its 'place in the sun.'"

And now that through this new Act America has found that American credit is good enough for Americans, the question is being asked if America makes itself the great creditor nation in the world, which Great Britain still is, notwithstanding the financial havoc played by the war, can "we" in America, in order to continue our home progress, "in some way that is without precedent, manage to convert bank credit into capital, and continue the extension of our railroads and the enlargement of our industrial plants?"

The way we suggest for the utilization of British credit *is* without precedent, but America is clearly on the verge of it, and Germany, except for its misapplication through an inflation of currency and the charging of interest, has been practising it. No other Power in the world has the scope, for adopting and applying it, equal to that of the British Empire. But argument is long and time is fleeting. The British Empire, notwithstanding the war, still has with its commercial command of the sea ample powers for absorption in trade, commerce and finance of the credit which the new system would release. It was during the Napoleonic wars that much of British trade on the great scale was established. America now is in what was largely Great Britain's position then. To meet the situation we must bring our dead resources to life by breathing credit into the nostrils of imperial enterprise.

CHAPTER VIII

WOULD THE CHANGE HURT THE BANKS?

This cannot be. The special credit lent under the new conditions will be well secured by valuable property and by the Government. The accounts represented by it will be profitable even at the small charge of 2*s*. 6*d*. per annum per £100 owing to the volume of the turnover. Such accounts, operated by crossed cheques, will merely add to the cheque currency, and whilst they will magnify the figures dealt with by the clearing house will involve no extra legal tender. The normal business of banks will not suffer. The great expansion of business which will absorb the new credit-capital will extend the scope of ordinary banking business for short loans on securities. These securities will be realizable, in practice as well as theory, owing to the greater purchasing power given to the nation generally by the liquefication of so large a portion of its assets. To the

extent to which the banks now lend on fixed capital, a kind of business they dislike, they will lend instead more largely on the liquid securities, which they do not dislike, with not only more profit to themselves, but without danger to their solvency.

The vast amount of depreciation upon their investments written off in past years out of profits will be restored to them. Such investments as Consols and other securities have not depreciated in price because of loss of intrinsic value, but because of the lock-up of credit in fewer and fewer controlling interests and consequent restriction of the one great medium of exchange, as more and more people fixed their capital in this country and abroad. When the means to utilize in the form of free credit the capital so fixed is made part of our financial system, the demand for securities will raise the price to the highest that their yield will dictate amidst conditions not altogether conducive to high interest. The financial position of every bank must be immensely strengthened then, in comparison with a position in which any attempt to realize the assets upon which solvency depends is absolutely and obviously foredoomed to failure. The position of bank

shareholders must improve correspondingly and enable them to regard with unconcern the liability of uncalled capital which in recent times cannot have been viewed with equanimity.

The enormous amount of War Loan taken up by banks, profitable though it be, will become an embarrassment, as such investments grow greater with the advent of further issues, unless the public are placed in a position to absorb them. The release of credit here advocated will have this effect. Many thousands of mortgagees, debenture-holders, and others with capital so released will most thankfully relieve bankers of their surplus investments in this direction and leave them free to assist in later issues, which will be over-subscribed several times and even fought for, rather than taken up grudgingly under the persuasive eloquence of striking but undignified advertisements.

The rediscounting facilities given to all banks will enable them to turn over their credit oftener and in all circumstances. This will have a direct tendency both to increase their usefulness to the community and to increase their profits. As profits are the measure of usefulness in honest transactions,

and the means to be useful will be so multiplied, banking profits ought not only to be increased but increased substantially.

Deposits and loans have a further bearing on this question.

The banks having lent their credit, not cash, notwithstanding the fiction pervading financial circles to that effect, the loan being ostensibly secured by the fact of the collateral security held against it, a corresponding credit or deposit in favour of the borrower is opened in their books. This credit is drawn upon by the borrower with cheques in favour of other persons with whom he has transactions. The cheques are paid into their own banks by these other persons, and their own banking credit is increased by the amount, whilst that of the borrower in his bank is reduced correspondingly. All the banks are lending credit as loans and receiving credit as deposits in this way, rendering the bulk of their deposits deposits of credit. A fallacy occasionally indulged in in speeches on banking is that loans may be set against deposits in scanning a balance sheet. But this is only true in a general way and not true of any particular bank. The weakness of the position is that

individual loans cannot be set against the individual deposits because they do not apply in respect of any bank to the same set of persons. Such a position is dangerous in the extreme, and any plan such as that now proposed for greater freedom of credit, which must have the effect of rendering far more readily realizable at fair values the securities upon which the recoupment of loans depends, wherewith deposits must be met, cannot be unwelcome to honest bankers or disregarded by them in either the public interest or their own.

Finally, a source of profit at present timidly indulged in by banks may be extended with increased profit and complete safety.

The new credit cannot be obtained except upon "going concerns." They have to be erected, equipped, and started. This implies the procuring of all the necessary capital or credit-capital. If all the necessary funds beyond the first charge are assured, if the bank is satisfied as to not only the business opening for such a concern, but also as to the ability of the proposed management, the funds for the first charge may be provided by the bank in the form of a loan at interest, with the certainty of repayment as soon as

the concern has become qualified for its share of public credit. The German banks which have so assisted to a much larger amount of credit-capital in the establishment of new concerns have had no such safeguard. Even so their own development and that of Germany as a whole have been accelerated to a degree to which Germany's present actions, resources, and staying powers bear striking testimony.

The rate of deposit interest which bankers will allow will depend not merely upon the yield from the outstanding amount of public credit on their books and the interest obtainable upon loans made upon the different varieties of marketable securities, but also from time to time upon the sum of time-deposits upon which interest is expected. In the early stages of readjustment the rate may necessarily fall owing to the magnitude of the deposits. Later on it will rise again, although not high enough, as now, to render bank deposit preferable to investment, unless bankers, having the greater opportunities, have also the desire to invest and the wish to gratify it by attracting deposits.

Current accounts will come to banks as a matter of course in connexion with the public

credit which they handle, so that the hypothecation of bank charges by present competitive practices will substantially decrease.

Apart from the condition of actual solvency into which national banking will be raised, an ultimate and substantial gain in the net profits of banks commensurate with their utility in the increased national business activity will unfailingly accrue.

CHAPTER IX

WOULD THE CHANGE AFFECT CURRENCY?

LEGAL tender is money which a Government declares by law to be the money of the State. Legal tender in one country is not necessarily so in another. English sovereigns circulate in nearly all countries, not because they are legal tender but because the gold they contain has exchangeable value in itself. Generally speaking, the money of one country is accepted in that country alone.

This circumstance led to the exchanging of one kind of money for another instead of for commodities and services, and initiated the money-changers of Biblical days who practised it as a business. Strangers arriving in a foreign country took their strange money to the money-changer and received from him as little as they would accept of local money in exchange for it. When the strangers wished to return to their native land they took what was left of this money back to the money-

changer and received in exchange as little as they would take of their original money. The money-changer made a commission on both deals, and sometimes more, if the stranger within his gates lacked experience. Even if the profit was small, world-wide exchanges of this character yielded the little yellow grains that made in time a shore of gold which ultimately lent itself to the absorption of much water taken in and parted with according to the tide of business affairs. This convenience of travellers is nowadays met, as a rule, by letters of credit issued by banking houses. These letters liquidate one another in clearing-house settlements between the banks involved.

A trader who did not travel to the country from which he purchased goods, but had to pay for them in the legal tender of that country, used to purchase with legal tender at home from a money-changer a written right to receive foreign legal tender from the money-changer's correspondent abroad. This he posted to the trader there who had sold him the goods, and who took the draft to the money-changer's correspondent and received the requisite legal tender in exchange for it. Nowadays the complexities of foreign exchange

in the manipulation of credit instruments to the practical elimination of the use of legal tender are the outcome of these tedious, wasteful and risky processes.

As money-lending was the one grandparent, so money-changing was the other, of the modern system of paper finance. When the Jews were a persecuted race, driven from one country to another, they carried away their wealth in money and precious stones, and acquired the habit of dealing in these valuables because others were not so easily portable. Fixed assets in any particular country were of little value to them, seeing that they could not be taken away by people fleeing for their lives. Hence it became a Jewish notion, which the ultimate powers of the Jews in finance imposed upon communities generally, that fixed assets or fixed capital are comparatively valueless because immovable. The strangest thing in modern finance is that the Government of every country except Germany appears to have accepted the doctrine that these possessions of its people are, comparatively, of no exchangeable value. The banker's plea that the securities acceptable by him against loans must have a free market to enable him

to realize them in an emergency is a direct descendant of the situation in which the Jews frequently found themselves, compelled to change their possessions into forms which they could carry when hastening away to a safer land. Our own Government has accepted that as a principle of sound banking, or at least has done nothing to veto it. It has consequently helped to render fixed capital so fixed as to compel the payment of a heavy tax, not only in the form of interest, but also in sales at knock-down prices, upon every owner of it who, having so fixed all his capital, is compelled to borrow on it for working capital, or to try to borrow and fail. As "trade followed the Jews" the countries which received them profited thereby, but not in this phase of finance to which their shrewd adaptation to their peculiar and precarious condition in the social economy gave rise. The masses of every country have been indirectly punished for this harrying of the Jews by the necessary development under such treatment of a system of finance which was internationalized through these very "harryings" from one place to another. It has imposed upon industry the heaviest tax of all,

weighing it down with interest that depresses wages or raises prices by increasing costs of production, impeding or altogether arresting its progress, and more than any other industrial influence, appointing receivers for the winding-up of "going concerns" and bringing "grey hairs with sorrow to the grave."

If bankers generally *could* realize their alleged "marketable securities" in a general emergency, one could understand the principle on which they act. But facts have proved it a principle impossible of application, except in a small way, in times of no general emergency, against first one individual and then another who by its means are crushed out of business existence.

The struggle for "currency" for one purpose or another, or for the right to "currency" at any particular time or place is at the root of all these operations. "Currency" is the medium of exchange, and the number and volume of exchanges practicable in a community within the limits only of the satisfaction of its fullest requirements are consequently controlled by it. Control of currency means nothing less than control of trade. Hence, the right to trade is subject to the controllers

of currency. The right to trade is a national privilege of very great value, affecting the interest of every person in the land. To learn that it can only be operated by those who control the currency prompts the registration of a pious hope that the currency is in the control of impartial people with no very special interests of their own to serve and actuated solely by a desire for the welfare of the nation as a whole without any bias in favour of a mere section of it. The Government itself must surely occupy the position. No other entity could afford to be so unselfish in the exercise of a power so far-reaching and a monopoly so vital. But the Government does not occupy that position. Time was when it did; in the days when legal tender was synonymous with currency. But that time has gone. Currency consists of money which is any material that by agreement between the members of a community serves as a common medium of exchange (and measure of value) in trade. It may consist of articles having intrinsic value, as cattle, copper wire, or pieces of cloth. In such circumstances, those who control all the cattle, copper wire, and pieces of cloth, are in a position to prevent

any trading that is not to their liking. Or it may consist of articles having only an arbitrary value, as wampum, beads, or cowries. In these circumstances, those who control the stock of wampum, beads and cowries to an equal extent control the amount and kind of trade that may be done.

We know that from early times commercial nations have used gold and silver current by weight in Eastern countries, or in stamped pieces in Western countries, as either customary or legalized currency. And we know that control of gold and silver has from early times —and whether in East or West—regulated Eastern and Western trade.

In modern times we find a currency partly of coin and partly of paper, issued by a Government or by a bank on the authority of a Government and made redeemable in standard coin, *i.e.* stamped pieces of gold or silver. In our country it is redeemable in gold. But gradually we find that those in control of the Government notes or bank-notes redeemable in gold are not in control of our trade; that the magnitude of such trade is quite beyond the comparatively short and feeble range of our legal tender reach. And what is the

truth? Simply that those who control legal tender have ceased to control trade because legal tender has ceased almost absolutely to be the real medium of exchange. Credit, operated by various forms of paper called credit instruments, has taken its place, and those in control of credit have taken over the control of trade.

It is now proposed to extend that control of trade over a wider range of individuals by releasing to them the use of a volume of credit which will probably increase very largely the credit which is at present in operation as the medium of exchange, *and to release it in the negotiable form of banking credit.* This will add to the currency of the country a large sum in terms of pounds, shillings and pence. But it cannot add too large an amount. The justification of currency is that it is based on value and that there is need for it. Well, this currency will be based on value, and if no demand for it arises it will not be drawn upon. Should it be drawn upon, that will provide the proof that a demand has arisen. That no interest is to be charged upon it is quite in keeping with legal tender as currency, seeing that *the issuing department of the Bank of*

England neither charges nor is authorized to charge interest on its outstanding bank-notes. That the currency will be drawn upon there is hardly a shadow of doubt. The extent to which this is done will indicate the shortage of currency which the Government has failed to supply in its legitimate function of furnishing the nation with a medium of exchange adequate to national needs. If the outstanding credit is reduced by an amount equal to the new credit drawn upon, there will have been no shortage but merely a perfect adjustment by others than the Government of our national currency to national needs. But this mere displacement of old currency by new will have saved the nation the interest and commission which the old currency cost it, and relieved it of a currency tax taken by others such as no Government has ever attempted to impose.

Being in the form of banking credit, it will add to the cheque currency, of which the magnitude at the present time is indicated by the figures of the bankers' clearing-house already dealt with.

No inflation of the legal currency can result from *bona fide* transactions by means of bank cheques. They possess none of the defects of

pieces of inconvertible paper passing from hand to hand, depreciating in value the more numerous and varied they become, bearing no definite relation to legitimate transactions or values, and having no specific value basis under them.

Convertibility was the "Samson's hair" of standard money as a medium of exchange. That removed by any Delilah of finance, its strength would be gone. Anything given convertibility, whether of intrinsic value or not, would be gladly accepted in place of value, because of its utility as a medium of exchange. In fact, "As a medium of exchange, credit is superior to standard money in that it does not involve the transfer of intrinsically valuable commodities produced at great cost." * It has the necessary convertibility, which is all that matters. Not convertibility into standard money. That is but one small portion of the commodities into which it is ever desired to convert it. But convertibility from one banking credit into another in a stream of finance on which are afloat and running with the current a busy scene of actual affairs in exchanges of commodities and services. And

* "Money and Banking," page 248. Alexander Hamilton Institute, New York.

this stream must ever grow in advance of the growth of affairs amongst greater numbers of people, for it cannot remain the same in such conditions without causing a serious glut, nor can it contract without a debacle. Along such streams, well-watered all the way, running "on the level," and needing no lochs and tolls, which impede progress and increase cost, the rivers, seas and oceans of ever-moving affairs are reached and continents of country-sides and cities rendered busy.

Inconvertibility is the stagnant pool, or the river Styx of currency. Inconvertible paper, inconvertible property, inconvertible commodities and inconvertible services are the "dry rot" of trade and commerce. Such were the assignats in the currency of the French Revolution. A limited convertibility was no convertibility. They could purchase only certain property. Naturally, owners of such property would not exchange it for assignats,* which

* Assignats "were inconvertible except in payment for property publicly assigned for the purpose"—"Crown and Church property, in the purchase of which these notes were receivable at par." ("Palgrave's Dictionary of Political Economy.")

The assignat, of which the nominal value was about £4, was neither ordinarily convertible, thus belying itself as

would purchase only property like that just sold. Banking credit translated into cheque currency, with the general practice of crossing the cheques, has no such defect. Banking credit is an "Open Sesame" wherever trade and commerce abound, and no such place can be possible where banking credit is not the prevalent form of currency. It is idle to say that if this new credit were drawn upon to any extent, and the cheques were presented for cash, the cash would not be forthcoming. Were that to happen with the present credit, the result would be the same.* Beyond the precaution of payment by crossed cheque no

currency, nor assured of ultimate redemption. It was like a £5 Bank of England note rendered impossible of exchange even for the means to pay for a 6d. meal. The consequence was that the starving man with an Assignat but otherwise without the price of a meal had to pay with it the equivalent of 6d. as in like circumstances we should part with a £5 bank-note.

The Assignat is the red herring which is always drawn across the trail of freer finance by the interested and the unthinking.

* "There is not enough actual cash in the whole world to pay the depositors of the banks of the United States if they should suddenly desire to exercise their legal right and all at once call for payment of the deposits." ("Money and Banking," page 261. Alexander Hamilton Institute, New York.)

other need be taken. Were any other required, in any exceptional circumstances, a "certified" cheque could be made legal tender. But a credit currency based on particular assets of intrinsic value and in continual process of redemption, drawn upon if required, not drawn upon if not required, can lead to neither inflation nor inconvertibility. There cannot be an over-issue of currency when the issue is regulated by specific requirements of individuals for particular transactions, the medium for effecting which is cancelled in favour of some one else's right to reissue in the promotion of a further particular transaction, a right which remains unexercised until further opportunity presents itself. Were the proposal to issue legal currency with every requirement, leaving such currency always or too long in circulation, a time would arrive when the currency being far in excess of all the exchanges capable of being effected would depreciate to the extent to which in terms of money it then exceeded as a whole that part of it really necessary for exchanges, or prices of commodities and services would rise proportionately in terms of money to an equivalence of that depreciation. Either effect would be the result of an

inflation or over-issue of currency, and no attempt to combat these economic forces by making such currency legal tender would have more than temporary success, whilst it would certainly lead to evasion, trickery, secret dealing, discontent, rioting, and rebellion. Were War Loan scrip made legal tender in these days of banking credit as the predominant medium of exchange, it would be an inflation of the currency. It would come into the hands of many people whose requirements it would not meet, who could get rid of it only by forfeiting the interest accrued upon it and sacrificing a balance of change. No legal tender regulation could compel a man to be in possession of change. It would be forced upon people with greater need for small change, whose time would be lost in obtaining its convertibility into that medium. It would load up the banks who could not use it as a substitute for banking credit, the divisibility of which into amounts down to a penny renders it a commercial necessity. It could not, however awkwardly, be substituted for banking credit in international transactions where the talisman of legal tender would not help it. And if it were used as a security for banking credit,

it would represent no separate, definite security of intrinsic value with earning power of its own out of which the obligations based upon it might gradually be met if necessary before its fixed date of redemption. In short, those who were not investors in it would try to get rid of it and to avoid getting it back again, causing a deplorable disturbance in the mechanism of exchange. Its superfluity would raise prices of commodities to a level where its abundance might ultimately be absorbed, but the scale of prices then reached would have the direst consequences, because the rise would not be based upon a natural rise in commodities or fall in standard value, but upon an artificial currency having little relevance to supply and demand and not called into being specifically thereby. *The change proposed has nothing in common with this.* Our proposed currency would have the elasticity necessary to adjust itself to legitimate requirements of demand and supply, and would in no way constitute a vast sum of currency plumped on to the market, to remain there whether wanted or not. It would have, naturally, the power to expand and contract—which is necessary to meet a crisis—whether this is due to con-

traction or expansion of supplies of credit or commodities. A shortage of commodities and high prices, with a contraction of credit; or an abundance of commodities at low prices, with expansion of credit, followed by a contraction, causes crises. In so far as they are artificial, *i.e.* the result of manipulation, the broadening of the control over the currency would checkmate such crises. And with rediscounting facilities extending throughout the Empire, rendering the circulation of our credit currency parallel with telegraphic wires around the world, such crises could not occur.

CHAPTER X

WOULD THE CHANGE AFFECT PRICES?

In the quest for the liquefication of productive national assets or greater exchangeability, the question of price, the money terms in which exchanges are effected, and therefore the expression in particular circumstances of the exchangeable value of the goods or services concerned, must be considered. The prices of goods depend as much upon the value or control of the medium of exchange, as upon the value or control of the goods themselves.

Those with credit long enough to engineer a successful corner bear witness to control of prices by control of credit. And all doubts must vanish before statements like that made in the House of Commons by Mr. Runciman that purchases of meat to the tune of £50,000,000 had been made by the Government at the rate of 2*d.* per lb. and were being applied to the feeding of the army and the

navy and for sale upon the civil market *with the effect of keeping down the price to the community.* It will not be contended that the Government paid the purchase price in £50,000,000 sterling. It has paid or will pay with credit instruments, to be liquidated in time to come by exports of either goods or securities or both through the operations of financiers. Meanwhile, the original sellers of the meat have been duly paid in the currency, or banking credit, of the Argentine. So long as the credit is met in the near or distant future, all will be well.

The national purchases of sugar by the Government Commission have had an equally marked effect in keeping down its price to the general public. The words of the Chancellor in reference to the price of sugar in the famous budget of 1915 were :

" At the same time that we increase the duty it is proposed that the Royal Commission on Sugar Supplies, which now supplies the whole of the sugar to the consumers of the country, shall reduce its price to the refiners and dealers by a general reduction ranging from 2*s*. 6*d*. to 3*s*. a cwt."

Without control of the necessary credit the

Royal Commission would be unable to purchase the supplies and so effect the operation which enables the general reduction stated to be made. If an operator in control of the necessary credit made the same purchases with an object less praiseworthy, he could as easily raise instead of lower the price to a degree in tune with the consumers' extremity.

Like effects in like manner have been wrought upon the price of wheat.

All this has been done not by a Government as a Government but by an operator in adequate control of credit.

Hence, price does not alter with the value of the goods alone, but with the value of the goods in relation to something else besides. " The common belief in the stability of money (medium of exchange) is analogous to the illusion existing among primitive peoples with regard to the solar system. They think the earth is stationary. It is their view-point, and all changes on the screen of the firmament seem to them to reflect changes in the heavens, not in the position of the earth. The analogy, like all analogies, is imperfect, but it is suggestive. The fact that changes in price reflect changes in the value of money (medium of

exchange) as well as changes in the value of goods is very important." *

The value of money or media of exchange is an equilibrium between supply and demand. For no other purpose than exchangeability has it any but an inferior value, being in itself unproductive whilst factories and other properties are productive. The uses of the precious metals for ornaments need not be dwelt upon, although they had considerable bearing on supply and demand of the media of exchange, before credit so extensively usurped their position. Gold is the standard commodity, however, by which in most countries the value of the media of exchange, as compared with the value of commodities and services, is translated into price. Price states the ratio between the value of 123.27447 grains of gold in a sovereign, and the value in terms of media of exchange of the thing to be measured for exchange. While gold was the principal medium of exchange there was a demand for it which tended to maintain its value and therefore to lessen prices of commodities and services, a smaller amount of gold being then

* "Money and Banking," page 70. Alexander Hamilton Institute, New York.

exchangeable for these than if gold were in less demand. Gold, although still the standard of value, has long ceased to be the principal medium of exchange. The supply has, however, increased annually: £90,000,000 has been for some years past the world's average production of gold but supplies of commodities and services have increased relatively faster. On the whole, under the influence of demand, gold is relatively cheaper, and consequently prices are higher. The substitution of credit for gold as the chief medium of exchange, credit on a vast scale commensurate with that of the commodities and services, has tended to increase the prices of commodities and services although not of securities. The effect of credit on the raising of prices has already adjusted itself, and prices are now largely regulated by the operations of financial interests in control of credit. The effect upon prices of the new credit will be curious. Merely as credit, probably in substitution of much of the credit at present outstanding, its effect will be *nil*.

When the development demand which it will promote begins, however, it will tend to increase prices. The increase will be a natural

one which can be abated by supply being kept abreast of demand. It will tend to reduce the price of commodities as the production of them is increased whilst maintaining or increasing the price of services, *i.e.* labour of all kinds, mental and physical. Standing charges have great weight in the cost of production. Mortgage interest, debenture interest, rent, the King's taxes, local rates, etc., figure in the accounts of every business concern, and they all form part of the cost of production in a sequence of contributory business concerns.

Now, the new credit obtained without interest and upon easy conditions of redemption will be employed to pay off first mortgages and first debentures and even whilst paying its annual redemption charge will save a considerable sum per annum in interest. That will reduce standing charges to some extent, reducing cost of production accordingly. All the suppliers will have a corresponding reduction and will be able to supply materials cheaper, which will tend towards a further reduction of cost in each business. Rent for a considerable time will tend to decrease, owing to easy acquisition of freehold premises. But natural development, and the absolute necessity

of land as a foothold, are bound to increase the price of land in the long run. And the land of the British Empire ought to be valuable. If it is not, something is fundamentally wrong. That is admitted, as it should be, by common consent of both Government and People, including those who think that summary judgment should be passed upon individual owners who use it not merely as a valuable commodity but also as a means of extortion by holding it up against productive use in order to limit the quantity in the market, to the natural value of which is thereby added the fictitious value of artificially limited supply in relation to insistent and ever-increasing demand.

Taxes will be lower per head of the population. Mortgagees and others, for instance, when paid off, will seek to reinvest their capital and will gladly participate in government issues at lower interest than 4½ per cent. The entire national debt can probably be refunded at an enormous saving in interest charges, thereby reducing taxes. A reduction of rates must follow upon similar reorganization of municipal loans, and consequent further reduction in the cost of productive municipal undertakings like

tranways and other undertakings entitled to the free use of their quota of the people's credit. With standing charges reduced all round, the margin of profit upon reduced selling prices of goods must leave ample scope for an increase in wages, both in any one trade and in all its contributories. And if this increase were but relatively small, it would be actually substantial in view of the greater purchasing power over commodities which the wages would then have.

But the price of services in the form of skilled or unskilled, mental or physical labour would tend to increase with the greater demand for them. The new concerns, and extensions of old ones, if equipped with perfect plant, would multiply the demand and competition for hitherto unwanted labour and render the war boom in wage earning a normal situation of more varied aspects. The lessening of standing charges in the manner described would lift from industry a load, the weight of which, it would be difficult to over-estimate.

The prices of Stock Exchange securities would necessarily rise in consequence of money from repaid mortgages, debentures, etc., seeking reinvestment. The capital gains to these

and other capitalists (whose wealth largely depends on the price of securities) which would result from the material appreciation of those securities (Consols and others of the gilt-edged or intrinsically valuable class, would reach *par* or higher once more), would afford ample compensation for the disturbance of their investments.

CHAPTER XI

WOULD THE CHANGE AFFECT OUR DAILY LIFE?

WHATEVER affects the media and mechanism of exchange must affect the transactions of every subject of the Crown. Every action of his business life, private life, public life is measurable in terms of money.

The fact of having a vote and the fact of not having a vote have consequences inseparable from the question of pounds, shillings and pence. In the municipal hall the question of expenditure is a skeleton in the cupboard at every discussion and debate; or the Banquo's Ghost which, unspoken and perhaps unfelt, invariably shapes a future Nemesis. The appointment of a teacher by the education committee affects the finances of not only the council, the teacher, the ratepayer, but thenceforward of every child brought under the teacher's influence; for education of any and

every colour regulates in an infinite variety of ways, ideas of every kind on any subject capable of occupying the mind, and everything thought, done and said, anywhere, anyhow, at any time has its influence sooner or later upon the coming or going of pounds, shillings and pence.

In the Houses of Parliament a distinction is made between money bills and other bills as if it were possible to produce a bill in which the coming and going of money had no concern. The ridiculous policy called *laissez-faire* in the national economy, responsible for so much ill-regulation of our trade under the pretence of "letting it alone," has had no more existence in fact than the imperceptible soap and invisible water in which some of its advocates are continually washing their hands. The regulation of national expenditure and income in any branch of the national accounts, in social reform or otherwise, however apparently remote from trade and commerce, has a direct effect upon the coming and going of the pounds, shillings and pence with which the citizen is able to trade. And the voter has a say in the policies followed, not only in respect of his own interests and desires, but in

respect of the interests and desires of non-voters whose fortunes he is thus permitted to weigh in the balance of his own peculiar views.

Every rule of every trade union, whether it deals with questions of wages or hours or not, and despite no thought of finance in its discussion and adoption, has its money effects stretching throughout the community in ever-widening circles until they reach the remote parts of the earth whence they react in unending ebbs and flows. Volumes might be filled telling the story in pounds, shillings and pence of the ways in which individual, social, national and international life of every grade is affected by the force of circumstances regulated by money. The circle of human affairs in a well regulated modern community coincides with the circle of finance. The one should fit so perfectly upon the other as to disguise utterly the real duality. But there is no community so well regulated. Each is at present a very irregular ellipse with several money centres from which internal forces balance external forces in a variety of convenient equilibria, variants of high interest on money and low prices of goods and services or high prices of goods and services

and higher interest on money such as we see magnified several times in the war-trade boom. The power to direct the channels through which money or money substitutes, as the media of exchange, shall flow is the arbiter of both interest, prices and the accomplishment of transactions. The housewife who holds in her hand the few pence which she proposes to exchange for her quarter of a pound of tea has absolute control over the taking place of this particular exchange or not. The tea-seller would not take tea or anything else than money, and she is the one person there possessed of that money. Upon her will depends the new channel along which that money shall flow. She understands this, if she does not know its significance, the tea-seller understands it, and for the moment she dominates the situation. Where metal and other tangible moneys of intrinsic value are still the media of exchange, many such concrete instances on a greater scale prove the dominance of the controllers of the medium of exchange. If they combine together to buy only at a rate of exchange fixed by themselves in their own favour, the prices they decree are accepted or no business is done, no exchanges

are made. It may be said that under such circumstances the owners of the goods and services need not sell. But they must sell. It is probable that credit payable on demand has been borrowed by them to pay for materials and wages over the long period of preparation, manufacture and warehousing of the goods and their alternatives are sale or ruin. They are therefore forced to sell at prices which bring them to the brink of ruin; and lower still if it is desired to drive them out of business for the purpose of reducing the number of competitors in that line of goods over which an ascendancy bordering upon a ring or a monopoly may be established. High interest and low prices are the desiderata of those in command of large credit-capital. If a fall of twopence in the shilling is procured, the purchasing power or exchange value of that credit-capital is increased by one sixth, the controller of £1,000,000 in credit becomes the controller of £1,166,666 in goods. The value of his money, or his money-substitute, is higher as the value of commodities is lower. If the value of services went up with money instead of down with commodities, all would be well. But the natural aim of the controller of credit is to

ensure that everything purchasable, whether goods or services, shall go down together. The only way in which to procure a relatively higher price for services with a relatively lower price for commodities is to extend the control of credit without interest on the lines of the proposal now put forward. A manufacturer who borrows, when the article he sells is 5*s.*, will not then have to pay back at the rate of two articles if called upon to repay when the price of his article has gone down to 2*s.* 6*d.* Nor will he have to cut all his expenses, including wages, in an effort to struggle out of the mire only to find himself driven deeper into it by discontent, disputes, strikes and disorganization. It will not be in the power of the lending interests to force him to sell at a fictitious value; the control which would compel him to do it will have fallen into too many hands; and the organization of that control for this base use will have become either impracticable or subject to such publicity as would defeat the object. It could not then be said of the manipulator of prices, "first this commodity, then that, is struck, always finding the entrepreneur unprepared." *

* "Economics of Business," page 157.

The inclusion of thousands of traders in the privilege of free national and imperial credit would democratize the credit-capital control to an extent almost incalculable in its effects. The credit-capital plutocracy have done great service in the establishment of the credit system without which trade and commerce on a vast scale would have been impossible, but unquestionably the monopoly of it has been abused, and the magnitude of it has gone far beyond any possible basis other than the property which belongs not to them, but to other people. The time has come when those other people should participate in the system by virtue of property which justly entitles them to do so and nobody *but* them except the Government.

The credit so liberated will be used to promote industry, not to penalize it or manipulate prices to the constant disadvantage of the community at large.

When credit gets into the proper hands, there is no doubt about what it can do in the promotion of industry. Even the credit which has to be paid for in interest as well as sacrifice of the rights of citizenship does much. It is practically indispensable despite its exactions.

In America, " the process of producing from the raw material a cotton garment, before it reaches the consumer, requires months of time and the participation of many separate industries. The raw cotton must be grown from the seed, ginned, baled, transported, carded, spun, woven into cloth, cut and sewed into the form of the garment, transported and sold to the jobber, then to the wholesaler, to the retailer and finally to the consumer. Practically every step involves an exchange in which a *quid pro quo* is necessary. For example, a cotton mill owner cannot perform his part in the chain of production unless he can possess himself of the raw cotton and hold it long enough to make it into cloth. If he has no equivalent to exchange for the cotton, he is stopped from business. The owner of the raw cotton, perhaps, cannot wait sixty or ninety days for his pay and he cannot, therefore, accept the credit of the mill-owner in exchange unless he can sell that credit for cash. The credit of the mill-owner, in the form of a promissory note, is not a medium of exchange which the cotton dealer can use to pay his obligations. The bank, however, stands ready to buy that note (at a greater or less discount)

and give for it something which can be used as a means of payment (*i.e.* a medium of exchange). The bank, a market for negotiable commercial paper, has made possible the exchange of cotton, and the industry of the country has been aided. Because a market for credit exists, exchanges can take place which would otherwise be impossible." *

Even though the mill-owner has the capital staked in the country (or is it because he has been fool enough to stake it in the country ?) he cannot command the medium of exchange to obtain raw cotton and hold it long enough to treat it, without the toll of 5 per cent. or more to the keeper of the toll-gate of banking credit, although he shows business premises which are tools wherewith to make the living of men and women who are units of the Nation, although he shows the raw cotton that will come into his possession by means of the banking credit he requires, and although he probably produces other securities perhaps in the form of the names of friends. This tax upon his time and upon the operation and operators of his mills he must pay, and he has to place himself and his industry under the heel of those who

* "Money and Banking," page 248.

control the medium of exchange. The pretext of lending out other people's money deposited with the banks, with precautions to ensure its safety, and of the necessity of charging more than double the interest paid out upon it even when deposit interest is paid are the means by which control of the media of exchange has been insidiously obtained. What is lent out is not other people's money, but credit created by the bank by virtue of its place in the mercantile machinery far in excess of "other people's money" deposited with it. The elaborate precautions to ensure safety are taken because they know this fact quite well. The obstacles that such precautions present to the development of individual business they are indifferent to. In effect those only with plenty of movable or readily realizable value, have any right to trade, however expensive and up-to-date the plant may be. Those who, with much effort, skill, and technical knowledge, succeed in bringing productive works into being must bring something for banks too or go elsewhere, to the "Never Never Land" to trade. The interest charged is an arbitrary one, fixed by the great capitalist centres and considered to be the maximum toll that the

industry itself can pay. Every nominal pound the trader can thus use for his exchanges he must pay for. It is as if every person who, having given value for a £5 note, or a £1 or 10*s*. Treasury note, had to pay interest on it at the rate of five or six per cent. per annum for every moment of holding it, and notwithstanding this be challenged by doubts upon its validity and forced to meet them with valuable security whenever he wished to pass it. Even under such conditions trade can flourish, as it must under the demands of the growing population of the world. But freed from such conditions in so far as first charges on productive property are concerned, what abounding activity would follow! Every British Citizen on British soil in any part of the Empire would find obstacles removed from his path, the willing and skilful worker in the army of trade and commerce would indeed find a "marshal's baton in his knapsack" as the great Napoleon said of every French soldier. There would be many fewer superior officers waiting for the security, the fees, and the toll, which would convert the baton into a stick to beat him with.

Every Britisher could have a real as well as

a sentimental pride in his imperialism if it meant freedom to trade in the sense that any productive stake in it fixed by him stood as a token of the amount of British credit, *i.e.* British medium of exchange he was entitled to use in his own right. Who would not wish to fix his capital in such an Empire? What reason could any Britisher then have for living under any other flag? Who but the blind, and the halt and the sick, need be poor, and why even they when a small charge spread over a big and prosperous people would bring them affluence with a capital A.

Rendering unto the people the people's credit, preaches no industrial millennium but merely the means to do good deeds that make them done.

CHAPTER XII

WOULD THE CHANGE AFFECT THE EMPIRE?

It is impossible to conceive a way in which such credit conditions would *not* affect the Empire. The importance of credit has been described as " the life blood of the economic system, its amount and condition determining whether business be healthy and vigorous, or unhealthy and stagnant. It determines whether the population shall be busy and prosperous or unemployed and poverty-stricken." *

It has been shown how control of credit means the control of " the life blood of the economic system," with power to determine its amount and condition and whither it shall flow, with the chosen channels limited to the will and the whims, the ideas and the designs

* " Money and Banking," p. 209. Alexander Hamilton Institute.

of the controlling few. It has been asked that the owners and workers whose combination brings about properties productive of the civilized life of the nation on which the main portion of the credit is based, shall be allowed to use that credit to the extent justified by what property of this kind they can pledge as a guarantee of that credit's redemption.

The war is exhorting the people of the greatest Empire the world has ever seen to broaden its horizon and take a wider outlook of their own great realms upon which the sun never sets. The man with his nose to the grindstone sees a little. The man in the valley sees more. But broad as the valley may be, embracing rivers, lakes, and other waterways, far-extending, undulating meadows, dwellings, institutions, industrial works, farms, railways, tramways, highways, and all the other ways of civilization, the horizon of the man who lives there is circumscribed by the surrounding hills.

The man who lives on top of the highest hill may embrace within his view not only the vale below, but also much that lies about and beyond it and which leads both to and from it. His horizon is infinitely wider. But the

horizon of the bird-like airman is the widest of all. He may extend it in moving circles to embrace the world. His bird's eye may miniature the Universe.

We have kept our nose to the grindstone until we are now driven into the valley. But we must take to the hilltop and the aeroplane. And our Empire and the world must be our horizon. We must lift the heel of subjugation from the neck of British enterprise and clear its path for Imperial expansion. We must no longer crucify it on a cross of monopolized credit.

The reproductiveness of British enterprise ought not to be stifled by artificial checks. Whatever may be said of Malthusianism in its relation to nature, the limitations upon the reproductiveness of business enterprise imposed by lack of intelligence, energy and opportunity are drastic enough. It is suicidal to restrict it further by a system limited to the brain-range of a few financiers whose power should be possessed not by themselves but by the people over whom it is exercised. In nature every organism besides carrying on its own life is an instrument of the propagation of further organisms more or less advanced of its own

species. Until its last stages of decay each organism is an asset in the promotion of further organisms. So should it be with every British business organism. Its creation should not condemn it to sterility, and the restricted living of its own business life, but should endow it with power of further creation apart from the fulfilment of its own particular business functions. As British enterprise it is entitled, without payment to a financial section other than the Government, to power with which to give rise to further separate offspring of British enterprise, apart from its own ultimate fate. The vitalizer of British enterprise is British credit, and every individual case of British enterprise is entitled to its measure of this vitalizer throughout its life, diminishing slowly or rapidly according to its state of depreciating health to the day of its death. Let that principle loose over twelve million square miles of British Empire. It is a sacred duty to the dead on the battlefields of Belgium. It is the answer to German ambitions. It is the freedom for which even such a war as this will have been a small price to pay. It is the Gordian knot of industrial problems, to sever which were well worth the

drawing of the sword. It is the way to redeem the long credit opened for us by our Empire-builders of the past who foresaw our needs, and gave their lives for them. Their value to our own safety we have not seen until another power has coveted them. No other power on earth has the scope for such development as has the British Empire. With encouragement of enterprise and unity of credit as the common Imperial bond, with proportionate contributions to forces overwhelmingly protective of great and growing interests, would come the multiplication of our resources, the happiness and prosperity of our people, and a permanent check upon the civil and military instinct of others to expand at British expense. Let our Coalition Government in these troublous times permit the servants who have received from a kind Providence five talents to be able to say, when their day of reckoning is reached, "Behold, we have gained beside them five talents more," and prove worthy of the felicitation, "Well done, ye good and faithful servants." Let our Government no longer compel them to dig into the earth and hide the talents as fixed capital, so that they may merit the opprobrium "ye wicked and slothful servants."

If our Imperialism be made financial by the Imperial utilization of our credit on the broad basis advocated, soon may it be said of the British citizen: "To him that hath shall be given," as it may now be said, "From him that hath not shall be taken away even that which he hath."

Upon this financial foundation much else will arise as its bearings become understood. More unison in the rules and regulations of trade, commerce and society; direct and indirect taxation; religious, physical, intellectual and moral influences and interests; combined efforts for orderly and peaceful progress, resistance to internal oppression and external attack; an Imperialism which will not deck the individual with the uniform of the armed robber with a gospel of "Might is Right," wherewith to mould by force the whole world to his wishes; but which will direct itself to the safety and welfare in trade, life and property of its people; an Imperialism in which none is for a party, and all are for the State; an Imperialism desired by individuals for its conveniences, and by rulers for its defensive power. Such an Imperialism would have a wonderful capacity for being constitutionally governed in the

common interest, a wonderful fund of common sense and brotherhood. It would promote an Imperial organism, complete, indivisible and ever-growing, a great and beneficent unity.

For neglect of such financial foundation the Roman Empire fell. As bearing upon that view the following paragraph is quoted from Charles A. Conant, an American writer:

"There will be occasion in this work to refer to many cases in which changes in monetary laws and the movements of money have been related to other important economic events. In some cases they have been the causes of such events, but in many others only the visible and conspicuous sign due to other causes. Such theories as those of Sir Archibald Alison, in his 'History of Europe,' that the fall of the Roman Empire was due to the deficiency of the precious metals, are exaggerations of the part which metals play in exchange. If the people of the Roman Empire continued to possess the same energy and productive efficiency and the same avenues for distributing their goods at a later date which they possessed at an earlier one, there is no reason to believe that the gradual decline of the volume of the precious metals over a

long period of years would in itself have paralysed their economic progress." *

With Americans we British are too prone to dismiss as negligible the view of Sir Archibald Alison, but the time has come for us at least when we have need to throw a strong light upon hard facts.

Sir Archibald Alison exaggerated the part which the metals play in exchange, if one judges from the point of view of to-day, when they have been superseded by credit; but what credit is to-day so were metals in the Roman time, and had he expressed himself more generally by using "Media of exchange" rather than "metals" he would have been right, most subtly right, for all time. We know what contraction of credit means. Every crisis tells the story. The terms are practically synonymous.

"The same energy and productive efficiency and the same avenues for distributing their goods" in a people, whatever their Imperial stamp, depend upon ample command of the prevailing medium of exchange into whatever shape the times have fashioned it. Energy

* "The Principles of Money and Banking," vol, i, pp. 14, 15.

may be stemmed, productive efficiency stifled and avenues for distribution closed by control of the volume and direction of credit. British credit is a mighty instrument of either defence or destruction. Are we using it aright or is it being used unseen against us? What makes a Bulgarian, against the spirit of his ancestors, in conflict with the traditions of his race, fight for a foreign King against his Slav saviour? In Bulgaria has international credit received such direction that only Pro-German effort will be paid for and the Bulgarian must fight and think as directed or starve?

We know and trust those in command of our soldiers and our sailors and of their machinery or munitions. The machinery of our credit consists of Banks and Financial Houses of various kinds, and our Credit Troops of Bankers and Financiers. Are they organized for specific objects of vital national and Imperial import and who are in command of them?

On the answer to that depends whether the British throughout the Empire should exclaim "Thank God!" or "God help us!"

CONCLUSION

The words of the Prime Minister quoted on the title-page of this volume enjoin rulers and ruled alike "to give and take, to take and give."

Since the great war began what has the country taken? What given? It has taken little in a positive sense but given much.

Regardless of their future, men by the million have shouldered a rifle and marched against the enemy; some to return but wrecks of their former selves, others never to return. They have given up without a sigh prospects however bright, intending to subordinate the individual to the common interest, not intending to subordinate it to that of a small but overwhelmingly powerful section of the common interest. They have given themselves body and soul if need be. Of course, they have taken their pay. But the pay, if the glory be hollow, is not such a fine thing. If it were, why should recruiting flag? Even slackers succumb to good pay.

The women have been splendid, too, in their lonely homes. Of course, they have received an allowance; but is that an adequate exchange?

Millions sterling have been collected from the pockets of the people to mitigate the sufferings of the destitute in our own and other lands.

Every household has busied itself with eager, unregulated work for the country in the generous, chaotic scramble to help. Progress in business other than that contributing to war munitions has been sacrificed at the bidding of the Treasury. Shutters are going up where stocks have ceased to arrive from Germany; men here and there, of twenty years standing or more in business, now sit half-dazed amidst the black ruin of the war. The Treasury veto upon adaptation to changed conditions, besides retarding progress, is hammering in the tragedy of the platitude that "Not to advance is to fall back." Down upon this comes crashing the War Budget of 1915, and the country is to give another £300,000,000 and hold itself liable for the war-cost to date, £1,619,000,000. Yet the war is hardly begun!

"We must all be ready in the common cause

to give and take, to take and give," says the Prime Minister, and so say all of us. But at present the rulers (*i.e.* the money power, the controllers of British credit), the economic, not the political rulers, are doing the taking, and the ruled the giving. That will not win a protracted war of such magnitude. If we demand the cost from the profits of the workers, where will the workers go? If war profits are not taxed in America but are abnormally taxed here, the traders will go to America, a country upon which we are surely dependent enough already. We cannot hold them here at the point of the bayonet. All the bayonets are needed elsewhere. If taxation is necessarily so heavy when the war is as yet all before us, who will remain to bear the burden of the third, fourth, perhaps fifth such Budget? If the 1915 Budget is the best kind of finance that a give-and-take policy can devise, what inducements remain here for the checked or unexploited progressive workers whose brainy and forceful activities are vital to the naval, military and civil interests of the country, and cannot be stifled or unrewarded here without being diverted elsewhere? It is impossible to win the war against Germany by making war

on the British worker, in which term worker is included both employer and employed. War on all profits is a war upon the nation itself, tending to discouragement, defeat, disintegration.

But such finance is merely that of Take, not of Give and Take.

The finance of Give and Take will realize from the magnitude of the figures with which it is called upon to deal how completely banking credit has taken the place of money as the medium of exchange in the economy of business, how inevitably national credit is the basis of banking credit, and how the physiological union of life and property is its true foundation. It will translate these unities of structure and function into terms of money legitimately convertible into liquid instead of fixed assets as banking credit. Give and Take finance in framing its coming £400,000,000 Budget, payable largely by the working employers and employed of the country, will first give relief to this overwhelming majority of the nation from the £300,000,000 per annum which it bears in interest on the printed paper of mortgages and debentures and first charges generally which have hitherto been its main

means of liquefying its assets in even a very restricted and vexatious way.

The finance of Take alone might ignore this question, add the £400,000,000 Budget to the £300,000,000 interest, and treat as unworthy of notice or comment this first charge of £700,000,000 per annum on the industry of the country. But the finance of Give and Take, the kind of finance to win the war and preserve the nation, would not do that. Rather would it assume that the workers of the country have striven to pay this interest long enough. It would recognize that their life and property stand for British credit, and as British credit is as good as gold so must that life and property be. Then would dawn the era of greater freedom in finance. Slowly but surely, as the machinery came into operation, millions of capital made up of mortgages, debentures and loans repaid with the new banking credit, would seek reinvestment in all available securities, including further war loans, and in every phase of development and variety of industry throughout the British Empire. The maladjustment of effort and property, of brains and resources, would be remedied by the flow of capital

wherever British credit had currency. The British Empire is big enough to absorb it all, and rich enough in natural resources to answer a call to become entirely self-supporting. Dependence on any country other than British in face of an enemy would cease and cease in time to win the present war. Cap-in-hand appeals for the readjustment of foreign currency exchange would be known no more, and our fate would not rest in the hands of the most or the least generous of our friends. Only so can we attain the glorious privilege of being independent. Only so can we pay with ease our coming obligations. British brains admitted on a wholesale scale into the magic circle of credit would translate their ingenuity into forceful forms over so broad a base that every man in the Imperial fight for British life, property, and credit would be fighting for himself as well as for others, and would *understand*.

The German already understands and feels the more secure, while we continue to commit the egregious folly of laughing at his designedly elastic finance by means of which the brains of the whole nation have been enabled to participate in the development of his country.

There the intensive cultivation of industry, through the researches of chemists free to obtain banking credit with which to give practical application in trade to the results of quiet hours in the laboratory, has given affluence not alone to an army of chemists but to hundreds of thousands of other workers.

In the domain of physics it is the same. The lighting industry alone with intensive cultivation of its possibilities had yielded up many secrets of further industries already in being on a great scale before the war.

The full significance of intensive cultivation in the arts of war has not yet been revealed. But the patient, sluggish German was made in these peaceful avocations more than a match for the quicker, brainier Britisher by the greater freedom to *do* things conferred upon him by a different credit system. Ideas are nothing if the means to apply them are absent. Knowledge is *not* power if money facilities for its application are not forthcoming, or only forthcoming upon enslaving, stultifying terms. The Government has the power to "Give" a freer rein to the practical application of British ideas and knowledge by the extension of the national credit advocated

here to those to whom it justly belongs, so lifting a staggering weight from the shoulders of British industry and liberating ample capital for the promotion of more. It has the power to do the like for the Colonies, with the co-operation of the Colonial Governments, in the creation of a bond of Imperial credit. Under such conditions it may "Take," without inflicting hardship, whatever the cost may be of keeping the enemy at bay whilst the British Empire proceeds now, not yet too late, with that unrestrained, self-supporting development which is necessary as well for its maintenance as to inflict upon its enemies that crushing defeat which means not merely victory but enduring Peace.

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